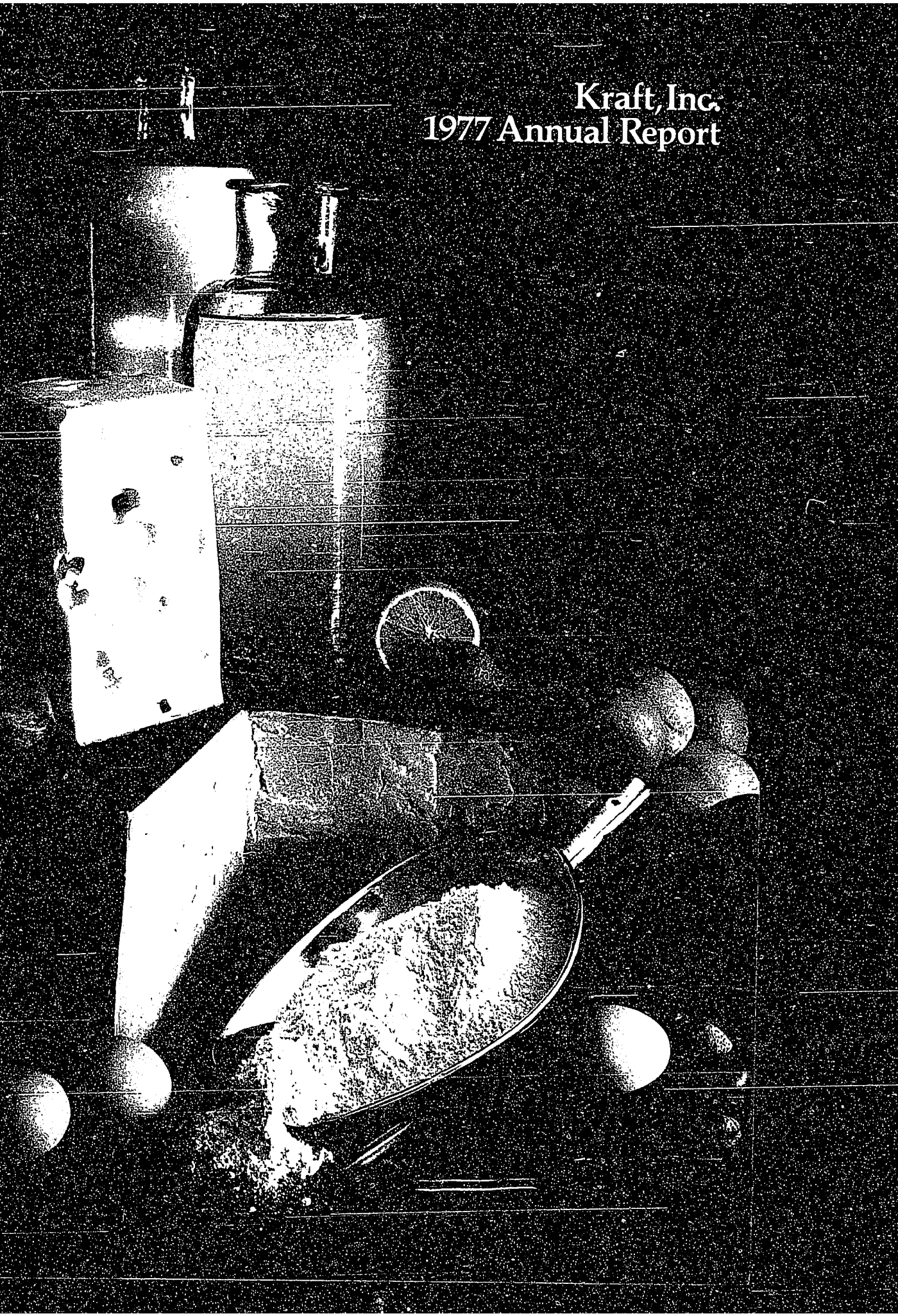
Kraft, Incorporated Annual Report -- 1977
America's Corporate Foundation; 1977; ProQuest Historical Annual Reports
pg. 0_1

Kraft, Inc.
1977 Annual Report



Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

The Scope of Kraft's Business

Kraft, Inc. produces and markets thousands of processed, packaged foods which are known and respected for high standards of quality by consumers, retail grocers, foodservice and industrial customers throughout the world.

The company's many product lines include processed and natural cheese, salad dressing products, margarine, packaged dinners, fluid milk, ice cream, cultured dairy products, refined vegetable oils, chemicals, packaging materials, aluminum housewares and toys. Kraft products are sold in more than 130 countries.

The cover illustration of this report features some of the raw agricultural materials which are converted to food products by Kraft.

Annual Meeting

The Annual Meeting of Stockholders will be held Thursday, April 20, 1978, at 2 p.m. at The Breakers Hotel, South County Road, Palm Beach, Florida.

SEC Form 10-K

The company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission, is available upon request and may be obtained by writing to the Secretary, Kraft, Inc., Kraft Court, Glenview, Illinois 60025.

Table of Contents

Financial Highlights	1
Message to Stockholders	2
The Year in Review	4
Financial Review (Management's Discussion and Analysis of Operations)	20
Balance Sheet	24
Income and Retained Earnings Statements	25
Financial Position Statement	26
Notes to Financial Statements	27
Auditors' Report	35
Five Year Summary	36
Directors, Officers and Committees	37

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Kraft, Inc.
1977 Annual Report

$5.2
Billion Sales

Financial Highlights

	1976	1977
	(Dollars in thousands, except per share)	
Sales	$4,976,643	**$5,238,807**
Net income	$ 135,650	**$ 154,115**
Per share	$ 4.86	**$ 5.51**
Per dollar of sales	2.73%	**2.94%**
All taxes on income	$ 142,386	**$ 148,400**
Per share	$ 5.10	**$ 5.30**
Dividends to stockholders	$ 58,919	**$ 64,598**
Per share	$ 2.12	**$ 2.32**
Capital expenditures	$ 86,272	**$ 77,098**
Depreciation	$ 57,821	**$ 60,889**
Stockholders' equity	$1,015,906	**$1,106,582**
Number of stockholders	63,384	**61,444**

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Message from the Chairman

To Our Stockholders:

It is a pleasure to report that your company enjoyed record sales and earnings in 1977. Net earnings rose 13.6 percent to $154.1 million, based on worldwide sales of $5.2 billion. These results, largely attributable to the skill and productivity of Kraft employees, are particularly gratifying because 1977 was a year of only moderate growth in the world economy.

The gains of the past year were based solidly on substantial improvements in vital areas within the company. Among those which deserve mention are increased worldwide sales tonnage in many major lines; improved margins, which are a direct result of higher productivity and aggressive, creative and controlled marketing programs; the effectiveness of cost control programs; and a strengthening of international operations. We are especially proud of the outstanding contributions made during 1977 by our operations in Australia and by Kraft Limited in Canada.

"...we took a fond, nostalgic look back to our corporate roots, and were emphatically reminded of the dominant role that quality has played in our growth as a company."

As 1977 drew to a close, plans were announced for a Family Reunion celebration to commemorate the 75 years of progress since J. L. Kraft began his remarkable career in the United States. In the course of our planning, we took a fond, nostalgic look back to our corporate roots, and were emphatically reminded of the dominant role that quality has played in our growth as a company. In this report we have attempted to describe and to portray Kraft quality at work, from procurement of fine raw agricultural products, through processing, distribution, marketing, research, planning and administration.

Quality is no will-o'-the-wisp; it is a goal which can be attained and improved upon. To further Kraft's progress, an experimental program which may be unique in industry recently was initiated. A $1 million corporate fund is now available to employees in our manufacturing operations to cover development costs in pursuit of ideas which might lead to improvements in equipment, processes, products and packaging. The Plant Technical Development Fund is, of course, in addition to our formal multi-million dollar Research and Development activities.

As you know, your company continues to speak out vigorously against the decline in quality of commercial television programming. In December, we took what we view as a significant step in the interest of reversing that regrettable trend. At that time, we committed funds to finance the production of a two-hour special, "The Lion, the Witch and the Wardrobe," to be broadcast on two consecutive nights in the spring of 1979. This animated adaptation of the first book of the famed "Chronicles of Narnia," by the late C. S. Lewis, will be produced in conjunction with Children's Television Workshop, creators of "Sesame Street" and "The Electric Company."

This will be the most ambitious single television undertaking in your company's history, and will provide the American family with entertainment of the highest quality. As such, it will be an excellent vehicle around which to build an extensive advertising and consumer information program. Kraft always has known that providing the best in radio and television is synonymous with good business.

Kraft has earned a worldwide reputation for skillful and imaginative uses of advertising to convey valuable consumer information on how to plan and prepare appetizing and nourishing meals. Our traditional practice in this area has put Kraft in the forefront among companies which are making positive contributions to informing consumers about good nutrition practices.

In addition, Kraft has been active for at least 50 years in promoting knowledge of sound nutrition through special school programs developed in consultation with professional educators. These programs, which include films and other teaching materials, have been praised and widely used, not only for their educational value, but also for the noncommercial manner in which they are presented. We have worked closely with the teaching profession because, in the broad sense, industry is neither trained nor equipped to practice the science and art of education. Good nutrition habits, which can contribute much to the quality of life, must be learned at an early age, and for that reason we believe the education needed by our children can be provided best in elementary and secondary schools by teachers trained in the subject.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

There is yet another link in the chain of quality. That is the quality of your investment in the stock of our company. It is our responsibility to protect your investment and to work for steady growth in earnings and dividends. Kraft operates in a volatile world economy, and it has not been possible to improve earnings consistently each quarter, or even each year, because outside factors can, and often do, cause short-term interruptions in earnings progress. Consequently, long-term trends and our progress toward the attainment of long-term goals are the keys to evaluating your company's financial stability and continued growth.

From 1967 through 1977, while the U.S. Consumer Price Index (CPI) rose by 81.5 percent, the earnings per share of Kraft stock rose from $2.65 to $5.51, an increase of 107.9 percent, one-third more than the increase in the CPI. As inflation increased the amount of capital needed to maintain and expand Kraft facilities, a larger proportion of earnings was reinvested in the business to help assure continued future growth.

"What is more important, however, will be the success with which we use the Kraft tradition of quality, with all its rich diversity, in building for the years to come."

In 1972, new long-term financial goals were established. Specifically, management set a 10 percent growth in annual earnings as one objective and a 15 percent return on stockholders' equity (ROE) as a second goal. Since then, the company has made significant progress in both areas.

Between 1968 and 1972, Kraft's average growth rate in annual earnings per share was 6.1 percent. For the period 1973 through 1977, it was 9.1 percent. This average improvement of 3.0 percentage points during the last five years has resulted in increased earnings per share for 1977 of 71¢ ($19,858,000).

Kraft's return on stockholders' equity also showed improvement. During the 1968-1972 period, our average ROE was 12.2 percent. From 1973 through 1977, it was 13.2 percent.

"... long-term trends and our progress toward the attainment of long-term goals are the keys to evaluating your company's financial stability and continued growth."

This ability to show improved earnings on your investment represents more than interesting statistics; it is vital to financial growth. You can depend on our continued diligence in working toward achieving these corporate goals.

It is a pleasure to note that some 13,000 employees became beneficial owners of Kraft stock during the latter part of 1977 through participation in the Employee Stock Ownership Plan. Broadening the base of ownership to include this substantial number of dedicated individuals who contribute to Kraft's growth through their daily work only can be of ultimate benefit to the company. It is expected that this added participation in the affairs of our company also will be of benefit to them.

Even though quality can be an elusive concept, with different meanings to different persons, there can be no doubt it has provided Kraft with a solid foundation for growth through the years. What is more important, however, will be the success with which we use the Kraft tradition of quality, with all its rich diversity, in building for the years to come. Your management believes in the future of this company and Kraft's ability to grow and to make significant contributions in a changing world.

On behalf of the Board of Directors and our fellow employees, we thank you, our investors, for your continued support.

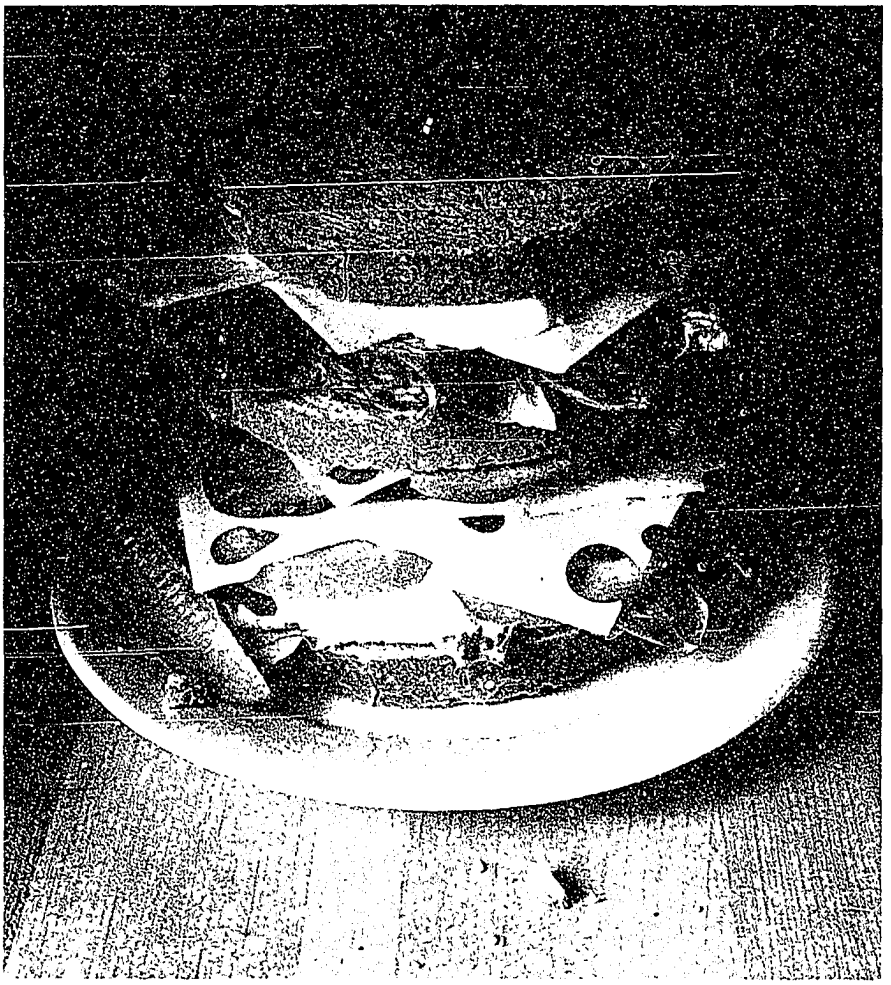
William O. Beers

William O. Beers
Chairman of the Board and Chief Executive Officer

March 6, 1978

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

"America's Family Reunion" is the theme of the largest retail products promotion in company history.



"...consumers throughout the world have come to trust products bearing the Kraft label and to rely on the company's quality standards. This response has been reflected in steadily growing demand for Kraft products."

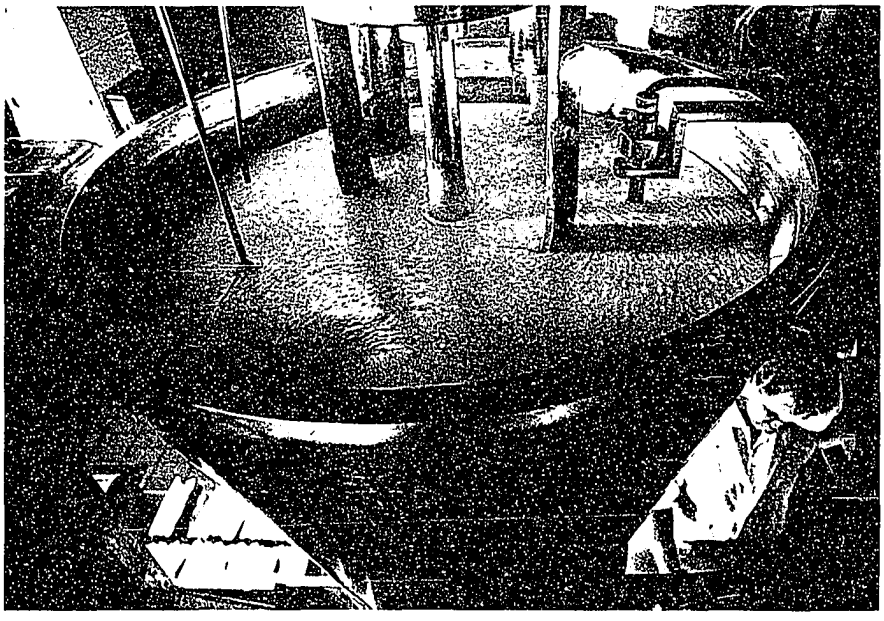
Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

A Five Billion Dollar Sales Year—1977 in Review

As this report goes to press, Kraft is observing the seventy-fifth anniversary of J. L. Kraft's innovative concepts for the marketing of quality products. Since 1903, generations of consumers throughout the world have come to trust products bearing the Kraft label and to rely on the company's quality standards. This response has been reflected in steadily growing demand for Kraft products. In 1977, that consumer demand resulted in Kraft's first $5 billion sales year.

Kraft began the seventy-fifth anniversary year of 1978 with the largest promotion of *Kraft* branded retail products in its history. Using the warmth and mutual pleasure of a traditional family reunion as its theme, the campaign makes extensive use of television, radio, magazines, coupons and in-store events to emphasize Kraft's role in bringing good food and families together.

The commitment to quality in its products is emphasized throughout the company's operations. That commitment was significantly strengthened last year with the installation of an improved quality control system for food products. It is in place at more than 50 U.S. locations and is being implemented throughout the rest of the corporation.

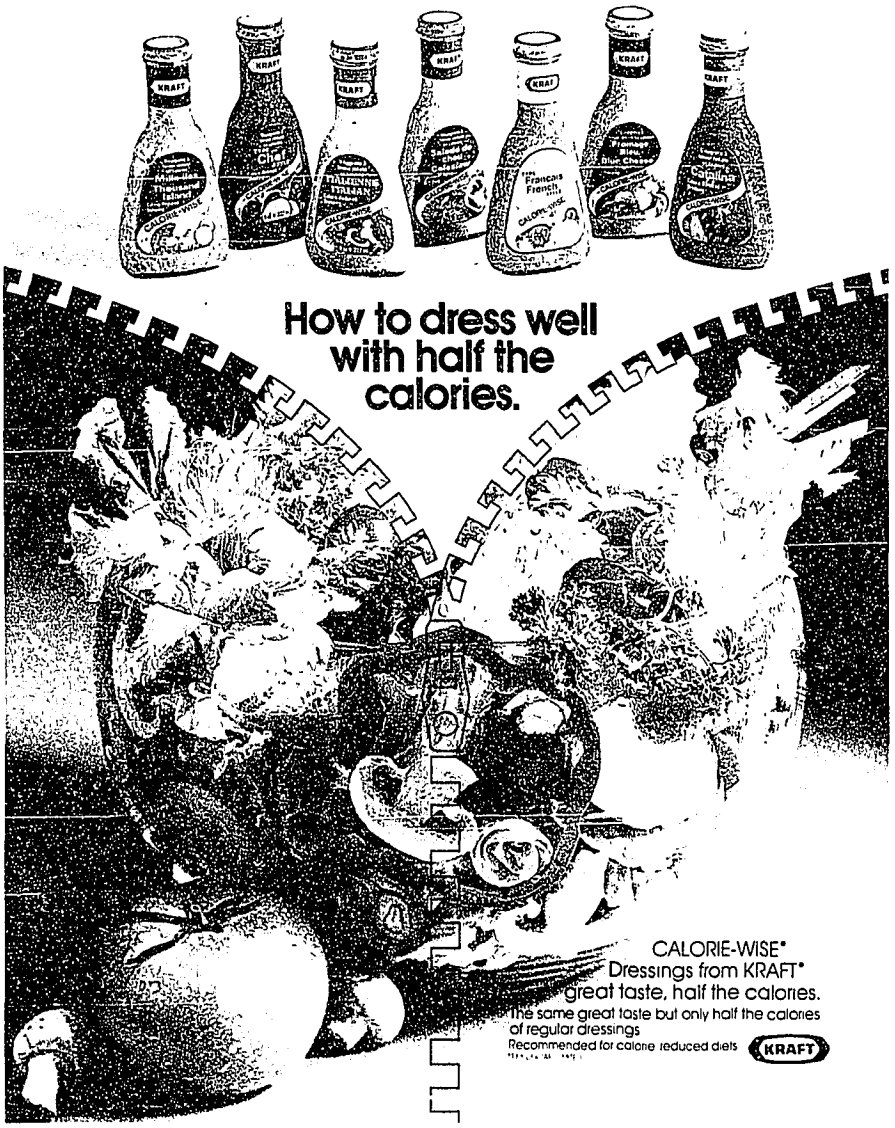


Heat-measuring probe at upper right monitors *Velveeta* pasteurized process cheese spread during packaging as part of a comprehensive quality control system.

This comprehensive system is called the Technical Operations Program. It was developed in 1974 to control precisely and document the quality assurance practices at Kraft's food processing operations. Legislation now pending would make it mandatory for Kraft and other food processors to maintain systems which utilize hazard analysis and critical control points (HACCP) concepts. But Kraft's program, which already has been initiated, goes well beyond compliance with proposed HACCP standards.

During the past two years, an extensive quality assurance system has been installed at company facilities in Venezuela, and employees have received intensive training in its operation. Subsequently, Kraft was granted the privilege of displaying the government of Venezuela's newly-established seal of quality on several product labels. Consumers in that country are becoming increasingly aware of products that bear this identification of safety, reliability and quality.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.


How to dress well with half the calories.
CALORIE-WISE*
Dressings from KRAFT*
great taste, half the calories.
The same great taste but only half the calories of regular dressings
Recommended for calorie reduced diets
KRAFT

Diet-conscious consumers, in Canada as in the United States, add zip to their salads with *Kraft* low-calorie dressings.

Universal Packaging Corporation, a Kraft subsidiary, supplies cartons for Kraft products as well as those of other food companies.

As this review of activities during 1977 illustrates, Kraft applies these same high quality standards not just to manufacturing operations, but to everything that it does, from procurement of raw materials through distribution, in research, planning, marketing, advertising, sales, and—most vital of all—in strengthening human relationships.

The company conducts a broadly based, formal program to increase the efficiency of plant operations. The main thrust is directed to application of new technology; to efficiency in handling raw materials and packaging supplies; and to improved utilization of existing facilities. Increasingly, raw materials are being transported and stored in bulk form. This procedure minimizes the exposure of these sensitive ingredients to external hazards and, concurrently, eliminates intermediate packaging and handling costs.

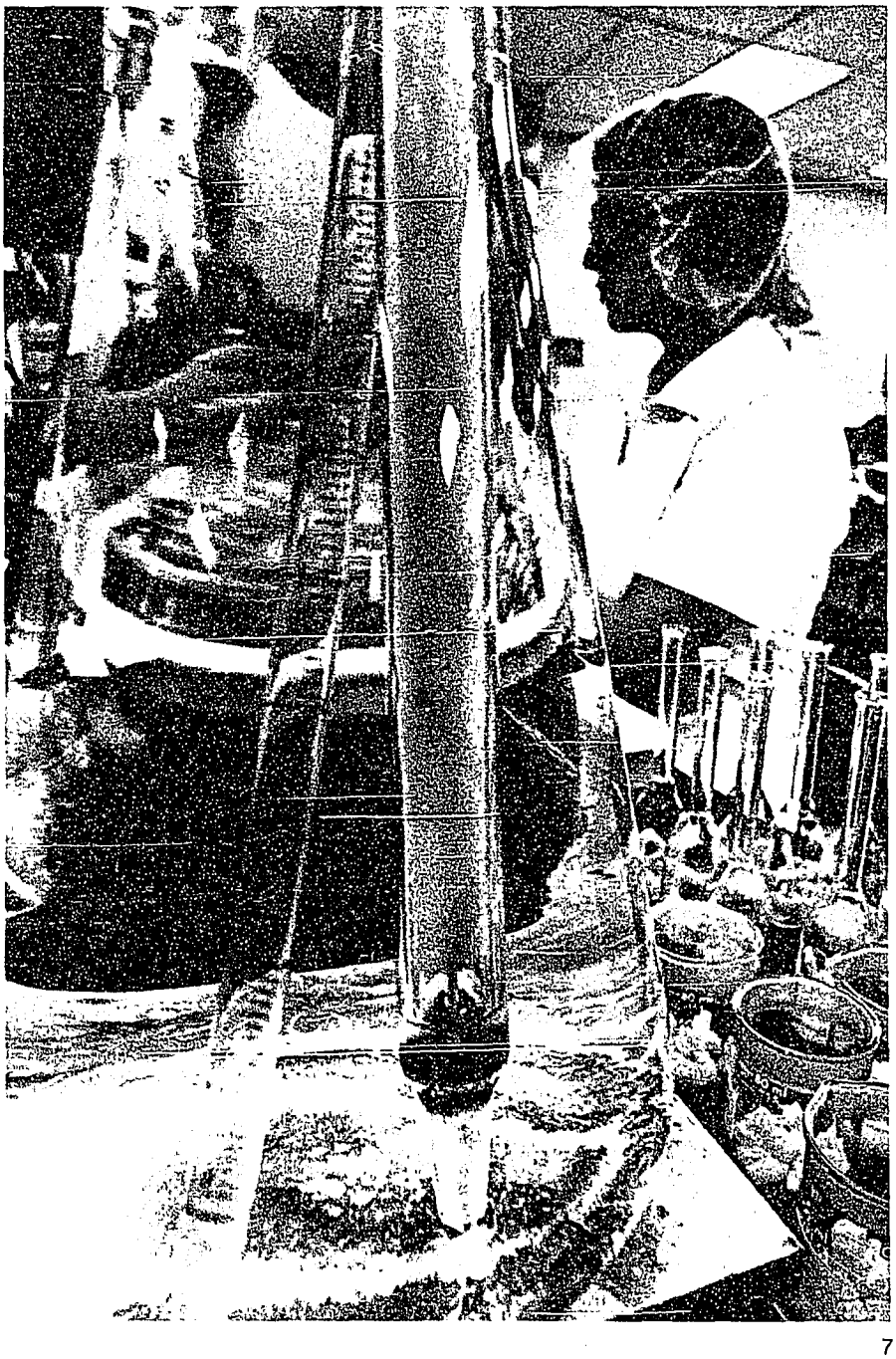
The program is implemented throughout the company. For example, the corporate Research and Development Center assisted Kraft Foods of Mexico in developing an advanced program for handling both packaging materials and finished products. The new method improves production efficiency and affords added protection to the products.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

New or improved technology is applied to manufacturing processes worldwide as well. During 1977, continuous processing techniques were extended to the manufacture of products that traditionally have been produced by the "batch" method. These techniques assure product uniformity, aid productivity and reduce space requirements. With the help of specially designed equipment, Kraft Foods Limited of Australia doubled production of individually wrapped cheese slices and increased by one-third the output of another popular product, *Cheestiks* cheese links.

Because the quality of each Kraft product is directly dependent on the facility in which it is produced, no plant, however small or remote, can afford to be outdated with respect to its equipment, processes or quality assurance systems. Approximately $77 million was invested in new or ongoing capital improvements throughout Kraft during 1977.

"...Kraft applies these same high quality standards not just to manufacturing operations, but to everything that it does, from procurement of raw materials through distribution, in research, planning, marketing, advertising, sales, and—most vital of all—in strengthening human relationships."

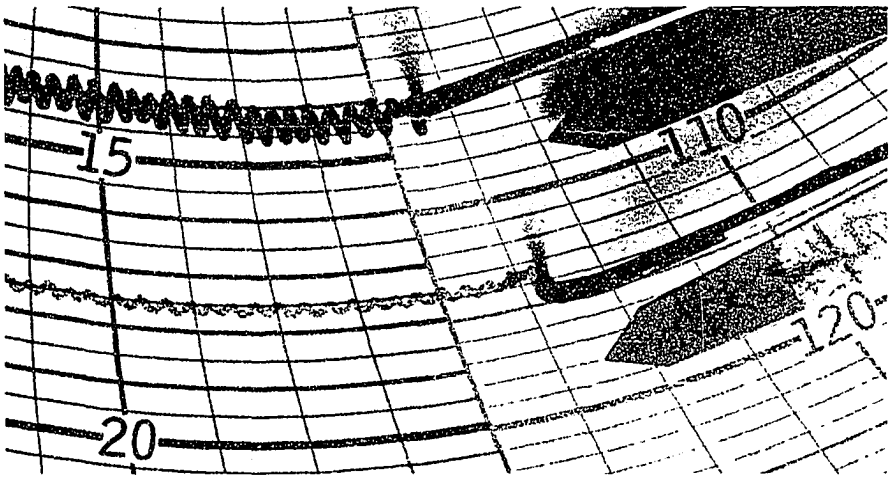


Quality Control specialists ensure that products meet exacting standards during the production process. This technician is testing the moisture content of cheese.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

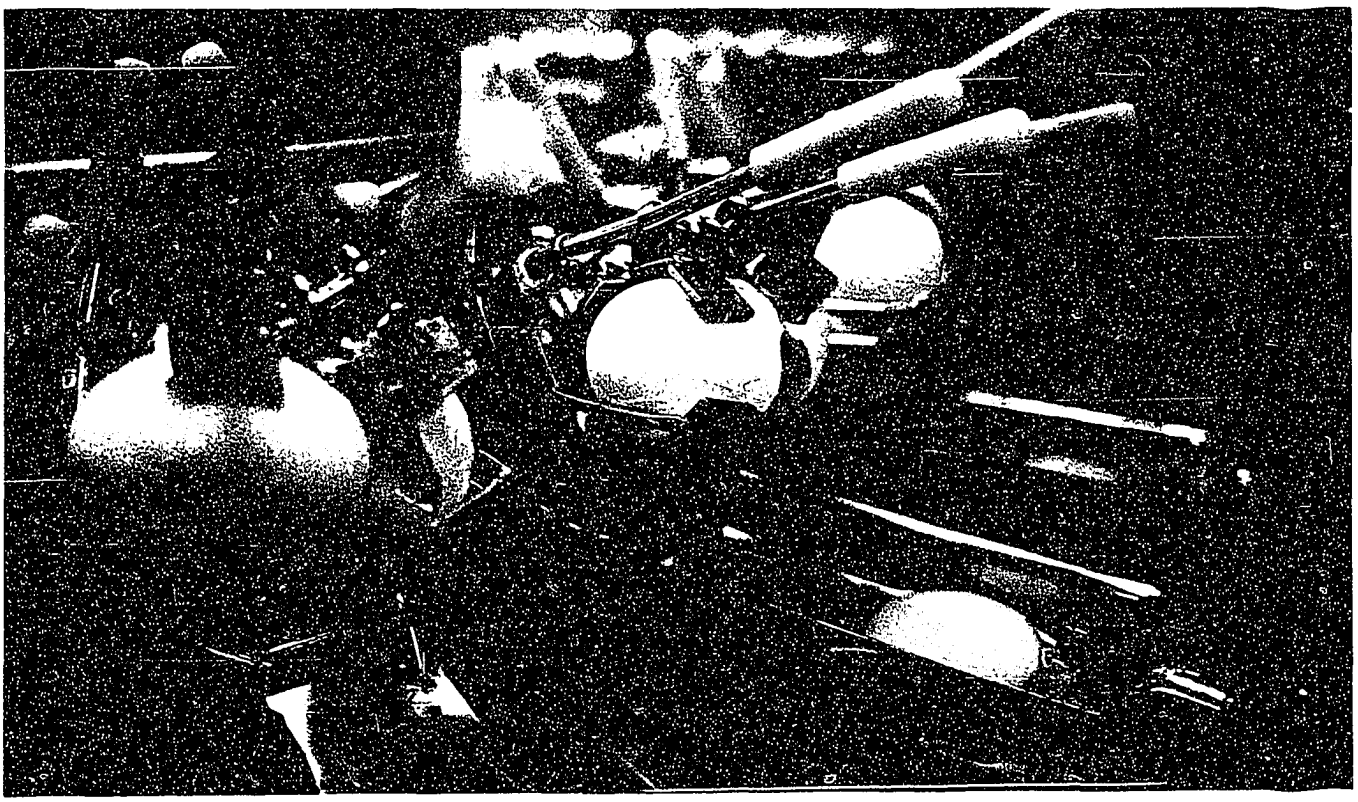
The variety of purposes for which capital funds were used in 1977 is shown by a few examples of the projects involved. A major expansion of the cheese processing and distribution center at Pocatello, Idaho, was begun. When completed in 1979, the addition will improve Kraft's ability to serve growing markets on the West Coast. Kraft Foods of Panama installed its first process cheese plant in 1977 at Panama City, and now is manufacturing the product for markets in both Panama and Costa Rica. A new plant near Sydney, Australia, is producing yeast paste, a key ingredient of *Vegemite,* the popular bread and sandwich spread. Kraft operations in Italy were strengthened by the creation of an efficient new distribution center at Bologna, resulting in better customer service at a lower cost to the company. Universal Packaging Corporation completed a facility at Trenton, Tenn., to supply plastic containers to U.S. customers. Universal also installed additional sophisticated equipment for production and deco-

"As energy costs continue to soar, conservation committees at each Kraft location are active in developing local programs to improve the efficient use of fuel."



An automated monitoring system continuously records the temperature and humidity inside macaroni-drying equipment as part of quality control procedures.

In 1977, Kraft's two egg-breaking plants cracked more than 240 million eggs for use in our spoonable and pourable salad dressings.



Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Kraft Cheez 'n Crackers goes to school as a favorite lunch box treat

rative printing of injection mold containers at Mt. Carmel, Pa. Universal excels in the difficult art of multi-color imprinting on plastic.

Humko Sheffield Chemical achieved a significant increase in its capacity to produce fatty amines through technological development. Amines are versatile chemicals with many applications; they are useful as ingredients of industrial lubricants and anti-static compounds.

The rapidly rising cost of energy presents a continuing challenge. Kraft's total energy consumption, in terms of BTU's per pound of product, was about the same in 1977 as in 1976; an anticipated reduction was offset by higher demand during the extremely cold winter months early in 1977. As energy costs continue to soar, conservation committees at each Kraft location are active in developing local programs to improve the efficient use of fuel. These measures include heat recovery methods, computerized monitoring and management of power usage.

There was significant progress in the corporate environmental control program during 1977. Within the U.S., water consumption was reduced by four percent, despite higher production levels. Installation and improvement of in-plant water re-use systems resulted in lesser burdens on community water and wastewater treatment facilities. As an example, reduction in the quantity of water used at one plant resulted in a 50 percent smaller wastewater load, thus avoiding a combined expenditure of about $600,000 by Kraft and the municipality to expand treatment facilities.

A transport backhaul program was introduced in the U.S. to help alleviate critical pressures created by continuing long-term fuel and truck shortages, and to provide retail customers with an opportunity to achieve a greater level of efficiency in their operations. Under the program, which is being used by more than 60 retail accounts, allowances are granted to customers who handle deliveries of Kraft products with their own equipment and personnel.

During one 24-hour period, more than 100,000 chunks of 10-oz cheddar cheese are produced from approximately 4,000 20-lb. bars by this single operation.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Many Kraft products and those of other companies are packaged in glass containers manufactured by Metropak Containers Corporation, a Kraft subsidiary.

Among its many and diverse strengths is Kraft's effectiveness as a sales and marketing organization. The company's growth in 1977 once again resulted directly from an ability to understand and respond to the spoken and unspoken needs of the marketplace. One enduring need is for the quality which has been an intrinsic value of Kraft products, many of which have become food classics.

Although Kraft worldwide sales topped $5 billion in 1977 for the first time, the increase over 1976 could have been greater, had the company not pruned certain unprofitable operations. The result of these and similar actions was an improved ratio of earnings to sales, which is an important aspect of corporate performance. Also, the company's commitment to maintaining quality throughout its product lines is demonstrated by the voluntary removal from supermarket shelves, at company expense, of any Kraft product which has lost freshness to the extent that it cannot arrive at the consumer's table with its original quality intact. Although still perfectly wholesome, these items no longer satisfied Kraft's demanding quality standards.

Kraft's first $5 billion sales year was, in part, accomplished through the introduction of new and improved products, and through entry into new markets. An expanded line of *Golden Image* "imitation" cheese products was introduced into seven additional states, making a total of ten. *Golden Image* is called "imitation" because 80 percent of the butterfat in the milk has been replaced by corn oil. Nutritionally, the line essentially is identical to natural cheese, containing the same quantities of milk protein and minerals. As such, it provides an important alternative to consumers who otherwise would not be users of cheese products.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Breakstone's sour cream-base salad dressings frequently are displayed with the fresh produce they complement so well.

"Among its many and diverse strengths is Kraft's effectiveness as a sales and marketing organization. The company's growth in 1977 once again resulted directly from an ability to understand and respond to the spoken and unspoken needs of the marketplace."

Tea sets are among many basic toys of enduring popularity produced by Kraft's Aluminum Specialty Company.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

In Venezuela, an imitation cheese loaf, similar in concept to *Golden Image,* was introduced with excellent results. The new product is marketed under the *Phenix* brand name to sandwich bars and cafes specializing in the *arepara,* a corn bread usually filled with cheese or ham.

As previously reported, the foodservice industry is an area of major growth potential for Kraft. Food marketing in recent years has been characterized by a remarkable surge in away-from-home eating. This growth reflects the increasing number of women entering the workforce and a steady shift of the U.S. food dollar from supermarket to restaurant. Consequently, Kraft continued to expand foodservice operations in 1977, and eventually will become a broadline supplier in all major U.S. markets. Kraft now has broadline districts in 12 metropolitan areas, an increase of eight over 1976. Each district has its own warehouse, sales office and truck fleet to serve mass feeding operators as a single source for a greater number of their food product and supply-item requirements. This has been accomplished by the Kraft foodservice line's expansion from approximately 600 items to more than 1,800, ranging from frozen fish, condiments and dressings, to ready-to-serve entrees, to paper towels and plastic utensils. A number of these items are produced by suppliers other than Kraft, including some of the best known names in U.S. industry.

Some of the new products introduced for sale to foodservice customers have been developed for that market at the company's Research and Development laboratories. One of these is a liquid shortening for deep frying with all the characteristics which made Kraft's solid shortening one of the most widely recognized products in the industry. Other new items are liquid and solid shortening-type products which impart a buttery flavor to fried foods.

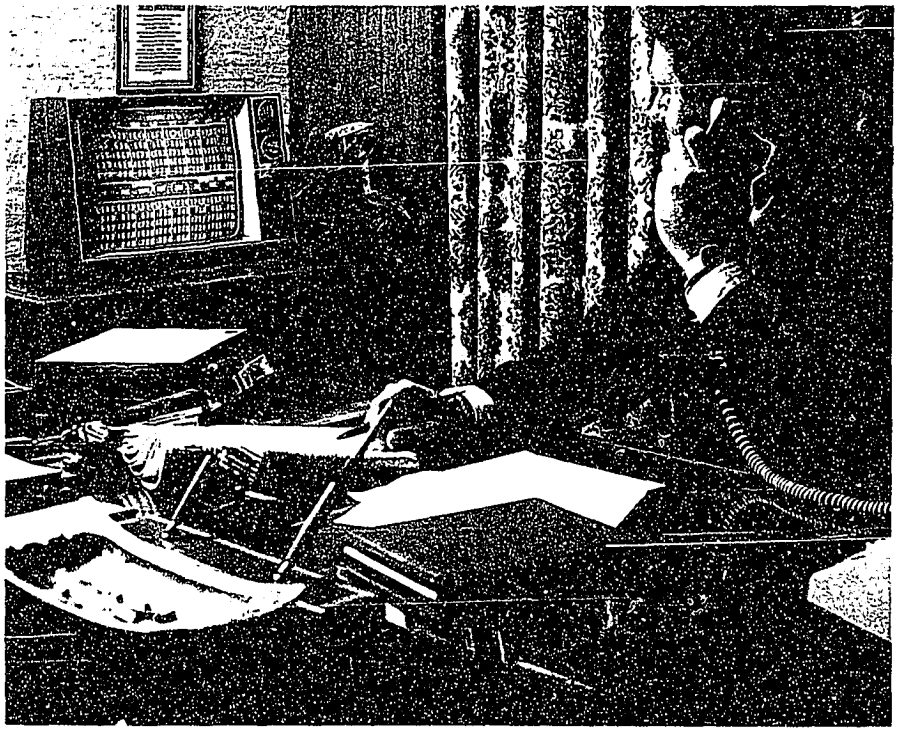
A new cheese loaf was distributed nationally to delicatessens. Other new foodservice products included the "Pizza-In-A-Box" school lunch entree, and a number of line extensions. A varied line of salad dressing products, packaged in 1-oz. individual servings, went into full distribution.

"...Kraft continued to expand foodservice operations in 1977, and eventually will become a broadline supplier in all major U.S. markets."

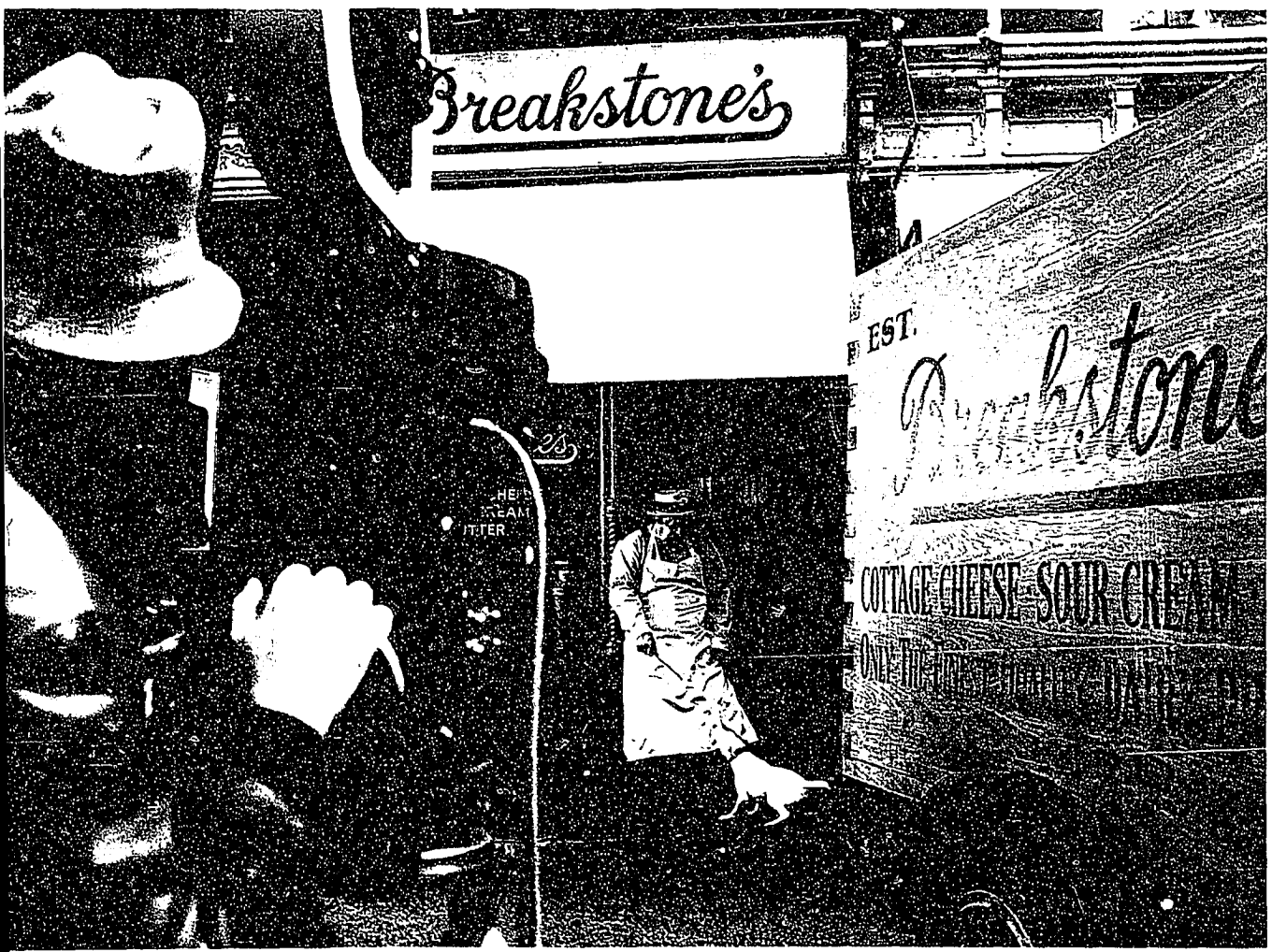
Philadelphia Brand cream cheese, a classic product known and enjoyed throughout the world, is manufactured to meet local requirements

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Closed-circuit TV from the Chicago Board of Trade is used by HumKo Products in the procurement of vegetable oils that become ingredients in such products as margarine and salad dressings

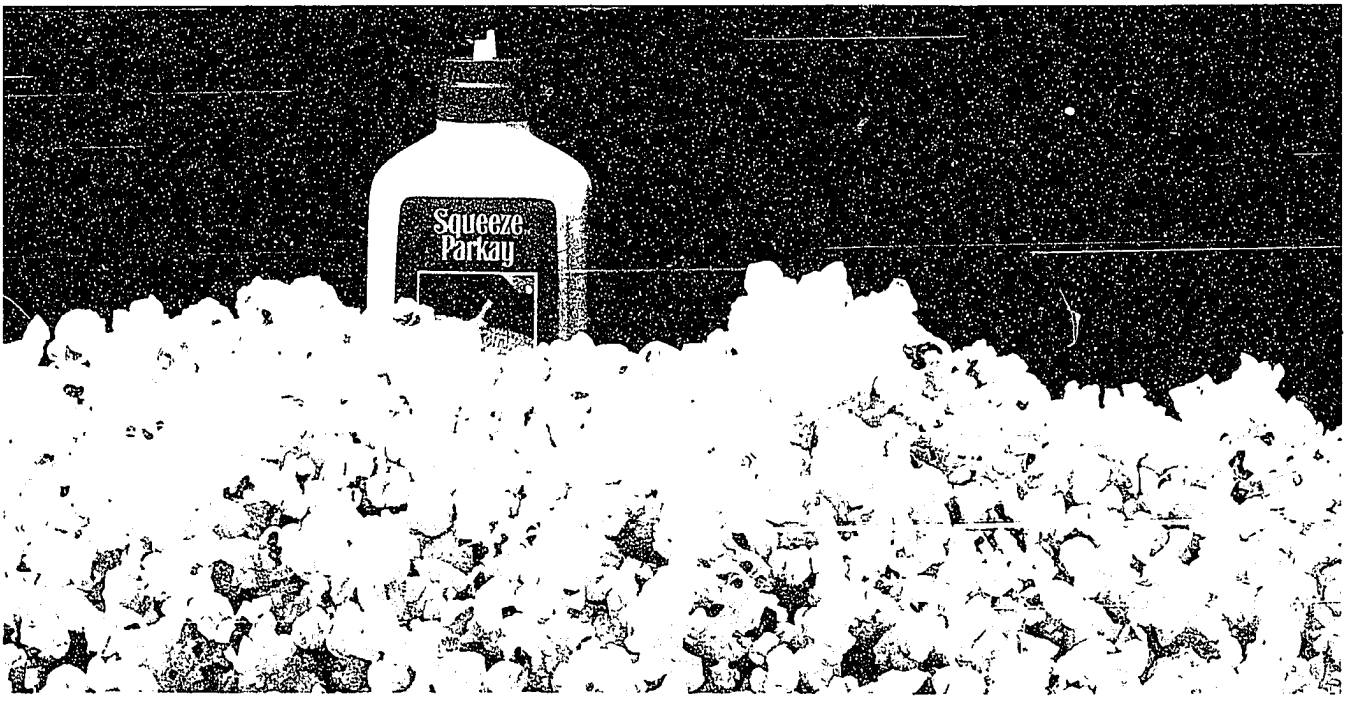


Jack, the fox terrier, continues to get the best of Sam Breakstone in new commercials being produced to support expanded distribution of *Breakstone's* products in 1978.



Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Family reunions are more fun and convenient with Kraft products.

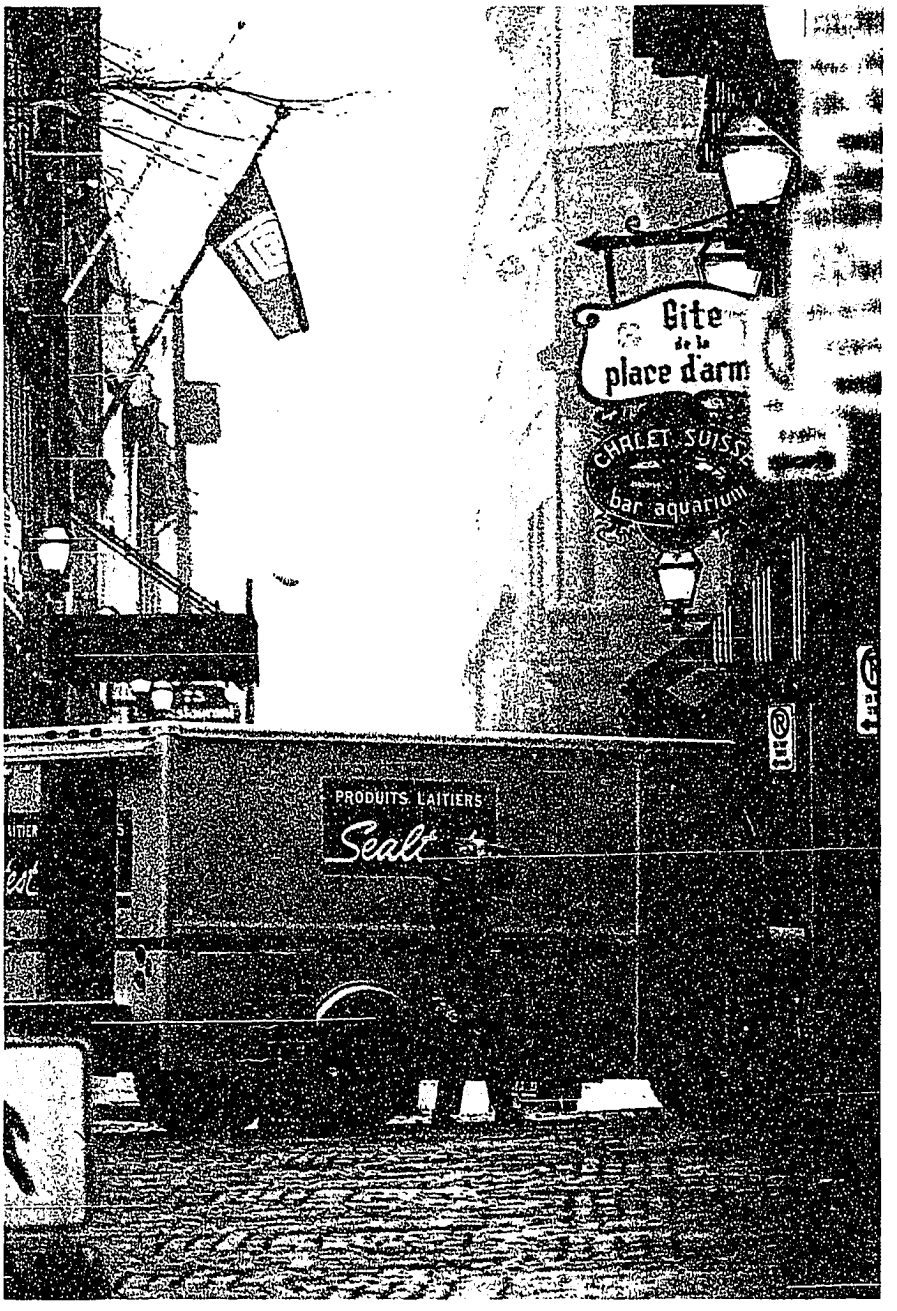


The company's fluid milk, ice cream, cottage cheese and cultured dairy products have earned and held consumer loyalty for generations. The high quality of these products continued to be a factor favorably influencing sales last year, and Kraft's various branded lines held or improved their own share of market. A number of developments highlighted the year's performance, including full distribution of *Breyers* yogurt throughout most of the Dairy Group marketing area. which is primarily east of the Mississippi River. In addition, several of the major branded dairy products underwent dramatic package design improvements.

Just as technology flows from one part of the organization to another, the *Light n' Lively* brand name, which has been so successful as a symbol of high-quality lower fat products such as milk, ice milk, cottage cheese and yogurt, now is used in marketing a line of process cheese products with similar characteristics.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Sealtest dairy products are marketed in eastern Canada by Kraft's Dominion Dairies.

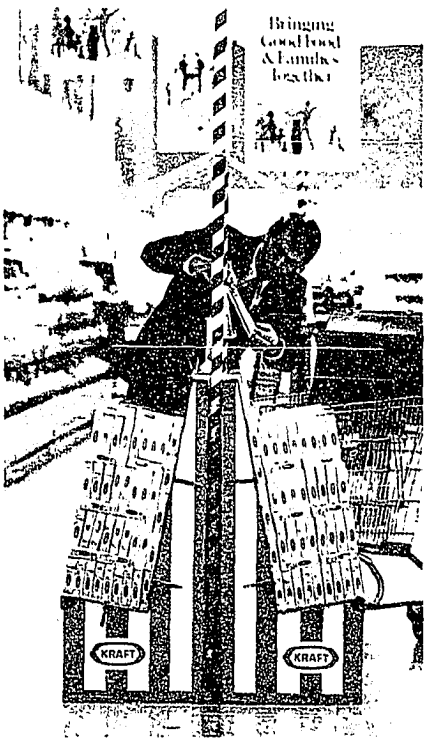


"The growth of a corporation cannot exceed the reach of its employees; they cannot be expected to stretch and to strive unless the company is willing to provide an environment which encourages them to do so."

Kraft's U.S. retail sales force was reorganized during 1977. Consequently, some of the company's best sales management talent were able to devote additional time to the needs of the retail food trade. In other marketing developments, a major program designed to broaden distribution of the top profit-producing retail food items was initiated. The substantial sales gains which resulted from this special effort confirm the belief that expanded distribution of established products represents one of several important growth areas for Kraft. A related venture was the development by Kraft specialists of a "Dairy Department Management" project, for the use of retail customers in training their employees.

Within the corporation, Kraft quality standards apply equally to that most fundamental of all activities, human relationships. The growth of a corporation cannot exceed the reach of its employees; they cannot be expected to stretch and to strive unless the company is willing to provide an environ-

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.



In-store merchandising, including point-of-sale displays, is an important part of Kraft retail promotions.

ment which encourages them to do so. Kraft addresses this responsibility by means of employee information, training, education and recognition programs. Each program is conducted with the expectation of improving job understanding, work skills and safe work habits.

In the economic information area, employees in Italy attended a series of meetings which probed the complex political and socio-economic problems of their nation. On a more fundamental training level, employees in Australia, newly arrived from Greece, were instructed in the English language. When French-speaking employees of the Namur, Belgium, plant were offered a company-sponsored opportunity to learn German, more than four times the number originally planned for asked to be included in the course. These programs, each in its own way, enhance the effectiveness and potential of the individual employee.

In the area of employee safety, which is of concern to Kraft as well as to the individual, the only acceptable record is a perfect one, and this has yet to be achieved. Still, 1977 was a year of safety progress. The preventable motor vehicle accident rate dropped nearly four percent, although employee injury incidence persisted at approximately the same level. One achievement was especially noteworthy. Employees of the cheese plant in Stockton, Ill., were honored with the newly established Award for Outstanding Safety Achievement for working more than 18 years without a lost workday injury.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Concern for the individual found expression beyond the company itself as Kraft employees assumed leadership in a variety of imaginative programs of assistance to the handicapped, the underemployed, and other groups. Kraft is proud of these men and women and encourages their participation in community service.

Kraft's philanthropy is allocated to improving the quality of life in the communities it serves through contributions in numerous broad categories, including civic, cultural, educational, health and welfare. During 1977, the corporation observed 25 years of association with Independent College Funds of America, organized to give financial support to the nation's beleaguered private schools. Kraft further supports education through donations to the United Negro College Fund, sponsorship of Merit Scholarships for high-achieving children of employees, contributions to match the gifts of individual employees to colleges and universities of their choice, and similar programs.

The years since the landmark U.S. Civil Rights Act of 1964 was enacted have been increasingly filled with the painstaking tasks of transforming the vision of social justice into living reality. For Kraft, 1977 was a year of steady progress in the company's growing affirmative action program as the placement and promotion of minorities and women continued to increase throughout the corporation. Among new programs was a project designed in cooperation with the Food Marketing Institute to provide a direct source of minority retail marketing candidates for recruitment.

"In the area of employee safety, which is of concern to Kraft as well as to the individual, the only acceptable record is a perfect one, and this has yet to be achieved. Still, 1977 was a year of safety progress."

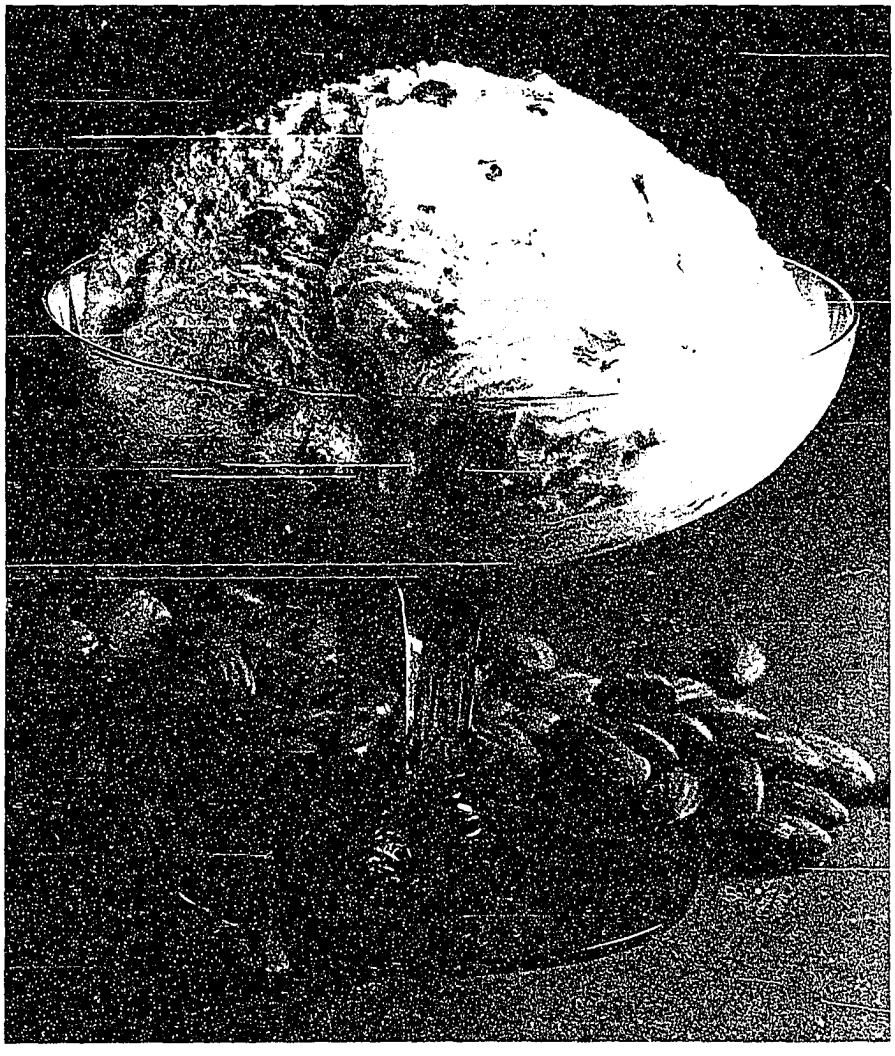
Kraft Pan entrees can be stored without refrigeration and easily heated for convenience in serving.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

In other areas of the company's minority affairs program, Kraft's unique Plant City Affirmative Action Taskforce Group concept was extended to San Francisco and Tampa. Eight cities with multiple Kraft facilities and a sizable minority population now are participating in the program. In these cities, management joins with leaders of minority community organizations to provide affirmative action programs of social service, education and economic development.

Several events in particular demonstrated the company's involvement in minority economic development. One was an announcement at the 1977 National Bankers Association Convention of a multi-million dollar time deposit program which provides minority banks with additional capital for reinvestment to support the economic vitality of minority communities. Another was Kraft's association with a minority-owned consumer product company. Kraft provided technological and engineering assistance, management consultation, and a substantial purchase order which helped the company to strengthen its financial profile and diversify its product line.

Kraft's Nutrition Policy, formally published in 1977, was brought to the attention of the medical profession when it was introduced to minority physicians attending the National Medical Association Convention. Nutrition specialists from the corporate R&D laboratories were in attendance to discuss the nutritional qualities of Kraft products in general, and of the new *Golden Image* line in particular.



The *Breyers* brand name, famous for a century of quality ice cream products, now identifies the same standards in a new line of sundae style, all natural yogurt.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

"Kraft . . . bringing good food and families together."

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Financial Review

Management's Discussion and Analysis of Operations (See Summary, page 36)

Sales

Kraft worldwide sales during 1977 reached a record $5.239 billion, compared to $4.977 billion in 1976, and $4.857 billion in 1975, representing increases of 5.3 percent and 2.5 percent, respectively.

Sales in the United States in 1977 were $3.813 billion, an increase of 4.0 percent from 1976 sales of $3.666 billion, principally reflecting higher selling prices necessary to recover increased costs, and changes in product mix. Sales in 1976 were 1.6 percent higher than in 1975, mainly due to increased sales tonnage.

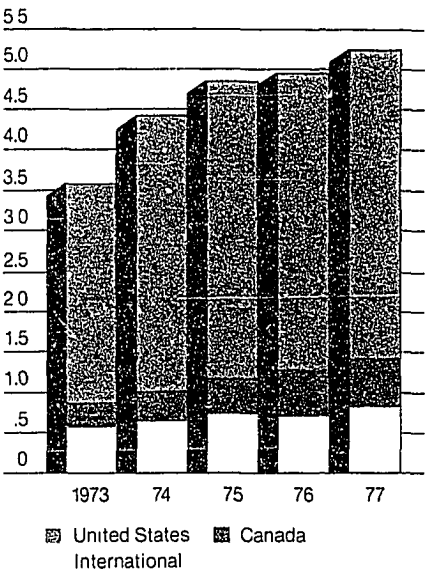
Sales in Canada in 1977 were $578 million, an increase of 3.0 percent from 1976 sales of $561 million, which in turn were 15.8 percent higher than in 1975. Increases in both years primarily resulted from higher sales tonnage.

Sales outside the United States and Canada in 1977 were $848 million, an increase of 13.1 percent from 1976 sales of $750 million, due to higher selling prices necessary to recover increased costs and, to a lesser degree, greater sales tonnage. Sales in 1976 were 1.8 percent less than in 1975, principally because of lower currency translation rates.

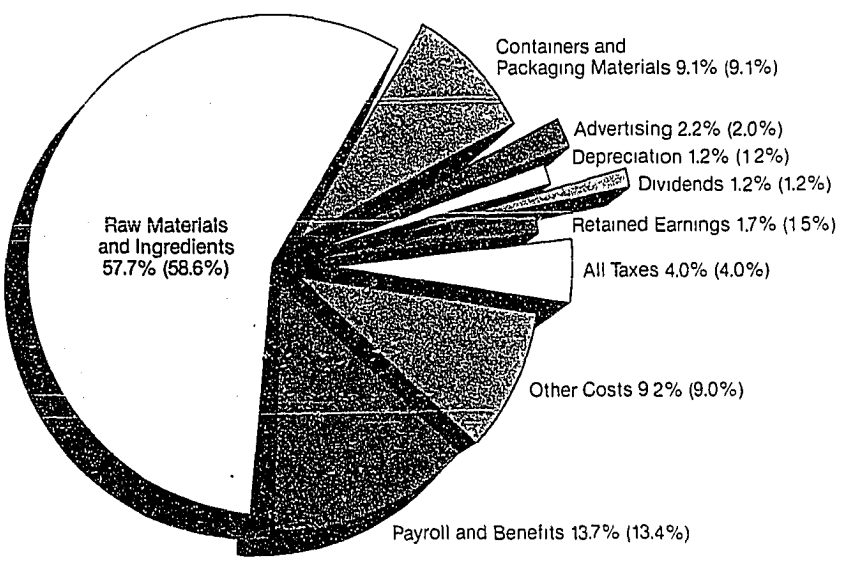
Sales tonnage in 1977 set a new record after adjusting for the 53rd week in the 1977 accounting year and for discontinued tonnage resulting from the withdrawal from certain fluid milk markets which were unprofitable, termination of the private label butter business and the restructuring of operations in Japan. Sales tonnage increased in margarine, salad dressing products, citrus products, packaged dinners, confections and specialty chemical products. Sales tonnage for cheese products was up only slightly on an adjusted basis.

Kraft's worldwide foodservice sales in 1977 increased 4.3 percent after eliminating from both years the sales dollar effect of terminating the private label butter business. Foodservice sales, after the above mentioned adjustment, were $657 million in 1977 compared to $630 million in 1976.

Five Year Sales (Billions of dollars)



How the 1977 (1976) Sales Dollar Was Divided


Containers and Packaging Materials 9.1% (9.1%)
Advertising 2.2% (2.0%)
Depreciation 1.2% (1.2%)
Dividends 1.2% (1.2%)
Retained Earnings 1.7% (1.5%)
All Taxes 4.0% (4.0%)
Other Costs 9.2% (9.0%)
Payroll and Benefits 13.7% (13.4%)
Raw Materials and Ingredients 57.7% (58.6%)

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Income

Net income for 1977 was $154.1 million, which was 13.6 percent higher than the net income of $135.6 million in 1976 The increase was due to improved margins, a recovery in International Division earnings, and a lower effective income tax rate resulting in part from restoring to income certain prior period tax provisions no longer required. Earnings in 1976 were 2 8 percent less than 1975, reflecting lower International Division earnings and fluctuations in foreign currency values, with a resulting higher effective income tax rate

Earnings per share in 1977 were $5.51, an increase of 65¢ per share from 1976. Earnings per share in 1976 were $4 86, a decrease of 15¢ per share from 1975.

Income per dollar of sales was 2 9¢ in 1977, 2.7¢ in 1976 and 2.9¢ in 1975.

Improved earnings of the International Division primarily resulted from strengthening of operations at the multi-product processing and distribution center in Namur, Belgium, more favorable foreign currency translation and a lower effective tax rate

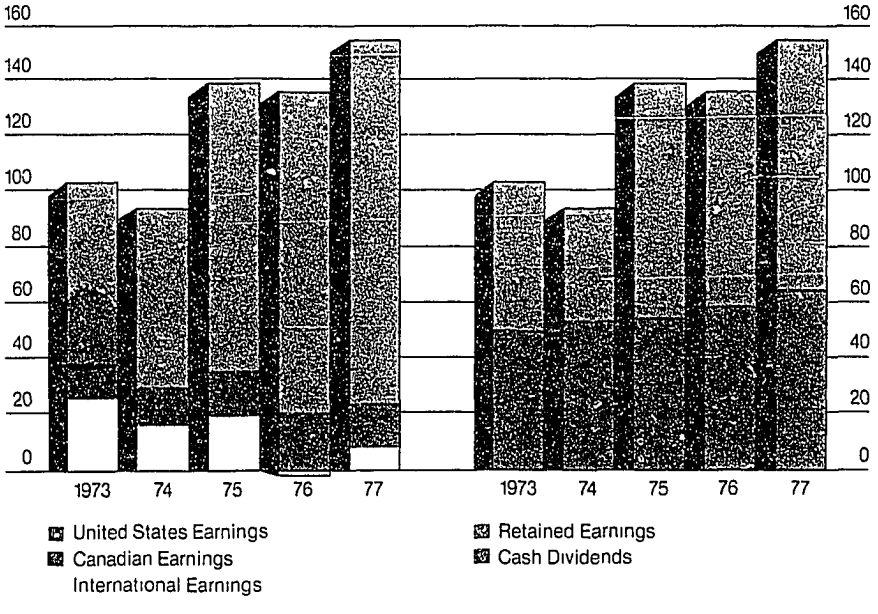
During 1977, technical and operating problems at Namur were resolved, and the responsibility for that operation was assumed by Kraft's German company, with the result that the company's major continental European processing and production operations now are directed by one management team. Charges in 1977 associated with the Namur plant reduced earnings approximately 36¢ per share compared with 58¢ in 1976 and 16¢ in 1975, when the plant began preliminary operations Like any new plant of its type and size, Namur is not yet operating at full capacity However, the basic start-up period Is now over and the plant is functioning as an integral part of Kraft's total European production and distribution capacity

The U S. investment tax credit increased net income per share by 14¢ in 1977, 21¢ in 1976 and 19¢ in 1975.

Translation of foreign currency balance sheet accounts decreased earnings in 1977 by 30¢ per share compared to increases of 2¢ per share in 1976 and 8¢ per share in 1975. In addition, net income was increased 7¢ per share in 1977, compared to a decrease of 22¢ per share in 1976, as a result of charging inventories to cost of products at historical exchange rates

Pre-tax income was a record $302 5 million in 1977, an increase of 8.8 percent over the $278.0 million in 1976. All taxes on income, including state and local, amounted to $148.4 million, 4 2 percent more than the $142.4 million in 1976.

Five Year Earnings and Dividends (Millions of dollars)



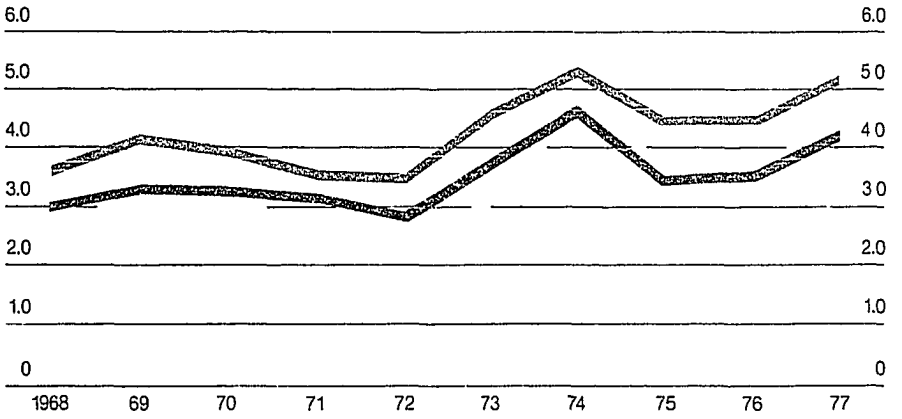
Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Dividends

Dividends totaling $64.6 million were paid to stockholders in 1977, compared to $58.9 million in 1976 and $53.3 million in 1975. Dividends per share were $2.32 in 1977 (58¢ each quarter), $2.12 in 1976 (53¢ each quarter) and $1.92 in 1975.

Dividends paid to Kraft stockholders have resulted in yields that have been higher than the average yields for the stocks included in both the Standard & Poor's 400 Industrials Index and its Food Composite Index. Equally important, Kraft's stock price generally has outperformed both those indices. The graphs on this page show the 10-year relative performance of Kraft's dividend yield and stock price.

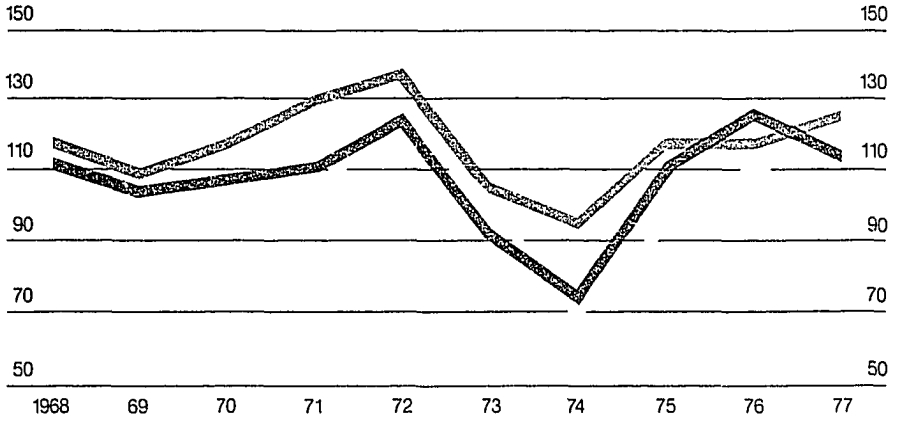
Annual Dividend Yield (Percent)



Kraft, Inc.
Standard & Poor's Food Composite
Standard & Poor's 400 Industrials

Source of data: Standard & Poor's Corp.

Indexed Year-End Common Stock Closing Prices



Kraft, Inc.
Standard & Poor's Food Composite
Standard & Poor's 400 Industrials

Source of data: Standard & Poor's Corp.
Each index is equal to 100 at year-end 1967.

Stock Price Range

The following table shows the high and low prices of Kraft stock by quarters for 1977 and 1976.

	1977	1976
	Composite of six U S Stock Exchanges (principally New York Stock Exchange)	
First Quarter	**$47-7/8—$43-5/8**	$45-7/8—$41-3/4
Second Quarter	**$49-3/4—$45**	$44-3/4—$40-3/4
Third Quarter	**$51 —$46-1/8**	$46-3/8—$43
Fourth Quarter	**$48-5/8—$44**	$47-1/2—$43-1/2

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Product and Operating Costs (As a percent to sales)

	1977	1976	1975
Cost of products, including raw materials, packaging supplies and processing expense	**79.6%**	80.2%	80.7%
Delivery, selling and administrative expense	**14.3**	13.9	13.4
Advertising costs	**2.2**	2.0	1.9

The favorable reduction in percent of cost of products resulted from recovery of increased costs through higher selling prices, particularly for cheese products. Domestic cheese prices fluctuated during the three years; however, average costs were greater in each successive year.

The increase in delivery, selling and administrative expenses primarily is a result of increased distribution costs and higher freight costs in particular.

Net interest costs in 1977 were $20.8 million, a decrease of $1.7 million from $22.5 million in 1976. The additional interest expense in 1977, resulting from the $100 million long-term bond issue in January of that year, was more than offset by the interest income from increased short-term investments.

Translation of Foreign Currencies

The effect on earnings of fluctuations of international currency exchange rates during 1977 is summarized in the accompanying table. Also, see comments on Translation of Foreign Currencies in the Notes to Consolidated Financial Statements

	1977			
Gains (Losses) (In thousands)	United States	Canada	International	Worldwide Total
Balance Sheet Accounts:				
Before income taxes	$3,619	$5,072	$(14,303)	$(5,612)
Income taxes	$1,737	$1,137	$ —	$ 2,874
After income taxes	$1,882	$3,935	$(14,303)	$(8,486)

In addition, as a result of charging inventories to cost of products sold at historical exchange rates rather than at the rates in effect at the time of sale, net income for the year was affected as follows.

	Canada	International	Worldwide Total
Gains (Losses) (In thousands)	$(8,060)	$9,966	$1,906

Capital Expenditures

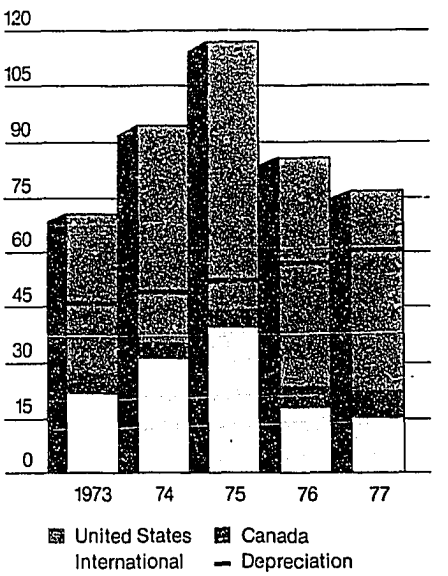
Capital expenditures amounted to $77.1 million in 1977. Expenditures in the United States and Canada, primarily for facilities to manufacture processed foods, dairy and nonfood products, accounted for $61.4 million of the total. In the Kraft International Division, capital expenditures were $15.7 million. Approximately $120 million of capital expenditures are anticipated in 1978. Depreciation charges amounted to $60.9 million in 1977 and are estimated to be $64 million in 1978.

Legal Matters

Several governmental agencies have requested information from the company in connection with investigations being conducted by them. One such investigation, which the Federal Trade Commission has been conducting over a period of several years, relates principally to the long-standing arrangement under which the company sells refrigerated dough bakery products manufactured by The Pillsbury Company to the retail trade.

Also, see the comments on Contingent Liabilities in the Notes to Consolidated Financial Statements.

Five Year Capital Expenditures and Depreciation (Millions of dollars)



Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Consolidated Balance Sheet

Kraft, Inc. and Subsidiaries

(Dollars in thousands, except par value)

	Dec. 31, 1977	Dec. 25, 1976
Assets		
Cash and temporary investments (see note)	**$ 210,372**	$ 37,301
Notes and accounts receivable, less allowance for losses of $8,400 in 1977 and $7,954 in 1976	**342,019**	310,654
Inventories (see note)	**774,177**	763,353
Total current assets	**1,326,568**	1,111,308
Property, plant and equipment, at cost (see note)	**1,155,663**	1,123,432
Less—Accumulated depreciation	**542,671**	517,837
Net property, plant and equipment	**612,992**	605,595
Miscellaneous investments and receivables (see note)	**87,686**	56,006
Prepaid and deferred items	**26,625**	15,047
Intangibles (see note)	**31,490**	33,898
	$2,085,361	$1,821,854
Liabilities and Stockholders' Equity		
Accounts and drafts payable and accrued liabilities	**$ 377,924**	$ 352,524
Short-term borrowings (see note)	**97,367**	103,894
Federal and foreign taxes on income (see note)	**71,791**	60,744
Current portion of long-term debt, less amounts provided for payment ($4,050 in 1977 and 1976)	**3,348**	1,039
Total current liabilities	**550,430**	518,201
Long-term debt (see note)	**344,133**	220,757
Deferred taxes on income (see note)	**57,573**	44,798
Minority interest in subsidiary	**2,987**	2,979
Miscellaneous	**23,656**	19,213
Stockholders' equity (see note)		
Preferred stock, $1.00 par value—authorized 10,000,000 shares, issued—none	**—**	—
Common stock, $2.50 par value—authorized 60,000,000 shares, issued 29,451,388 shares in 1977 and 1976	**73,628**	73,628
Capital surplus	**49,476**	49,337
Retained earnings	**1,052,199**	962,682
	1,175,303	1,085,647
Less—Treasury stock, 1,568,711 shares in 1977 and 1,651,130 shares in 1976, at cost	**66,260**	69,741
Unearned portion of restricted stock issued for future services (see note)	**2,461**	—
Total stockholders' equity	**1,106,582**	1,015,906
	$2,085,361	$1,821,854

Contingent liabilities (see note)

(See Notes to Consolidated Financial Statements, pages 27-35.)

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Consolidated Statements of Income and Retained Earnings

Kraft, Inc. and Subsidiaries

(In thousands, except per share)

Consolidated Statement of Income

	53 Weeks Ended Dec. 31, 1977	52 Weeks Ended Dec. 25, 1976
Net sales	**$5,238,807**	$4,976,643
Costs and expenses:		
Cost of products	**4,169,181**	3,990,939
Delivery, sales and administrative expense	**748,284**	691,762
Interest expense	**33,566**	25,605
Interest income	**(12,785)**	(3,123)
Other (income) and charges, net	**(1,954)**	(6,576)
Total	**4,936,292**	4,698,607
Income before taxes	**302,515**	278,036
Provision for taxes on income (see note)	**148,400**	142,386
Net income	**$ 154,115**	$ 135,650
Net income per common and common equivalent share	**$ 5.51**	$ 4.86
Net income per common share assuming full conversion of the 7½% Convertible Bearer Bonds due 1985	**$ 5.44**	$ 4.80
Average number of common and common equivalent shares	**27,969**	27,911

Consolidated Statement of Retained Earnings

	53 Weeks Ended Dec. 31, 1977	52 Weeks Ended Dec. 25, 1976
Balance at beginning of year	**$ 962,682**	$ 885,951
Net income	**154,115**	135,650
Dividends on common stock ($2.32 per share in 1977 and $2.12 in 1976)	**(64,598)**	(58,919)
Balance at end of year	**$1,052,199**	$ 962,682

(See Notes to Consolidated Financial Statements, pages 27-35)

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Consolidated Statement of Changes in Financial Position

Kraft, Inc. and Subsidiaries

(Dollars in thousands)

	53 Weeks Ended Dec. 31, 1977	52 Weeks Ended Dec. 25, 1976
Working capital provided by:		
Operations—		
Net income	**$154,115**	$135,650
Items which do not use working capital—		
Depreciation	**60,889**	57,821
Deferred taxes on income	**12,775**	12,499
	227,779	205,970
Book value of properties sold	**9,659**	7,045
Proceeds from 7.60% sinking fund debentures	**100,000**	—
Proceeds from 8¼% notes (Canadian subsidiary)	**22,850**	—
Proceeds from 8½% loan (Spanish subsidiary)	**—**	3,060
Sales of common stock under options	**799**	683
Other, net	**2,764**	6,537
	363,851	223,295
Working capital used for:		
Dividends paid on common stock	**64,598**	58,919
Property, plant and equipment additions	**77,098**	86,272
Decrease in long-term debt	**4,874**	1,936
Funds set aside for debt redemption	**—**	42,300
Increase in long-term receivables	**24,750**	—
Increase in prepaid pension costs	**9,500**	—
	180,820	189,427
Increase in working capital	**$183,031**	$ 33,868
Increases (decreases) in working capital:		
Cash and temporary investments	**$173,071**	$ 3,819
Notes and accounts receivable	**31,365**	5,964
Inventories	**10,824**	56,729
Accounts and drafts payable and accrued liabilities	**(25,400)**	2,482
Short-term borrowings	**6,527**	(46,780)
Federal and foreign taxes on income	**(11,047)**	11,668
Current portion of long-term debt	**(2,309)**	(14)
Increase in working capital	**$183,031**	$ 33,868

(See Notes to Consolidated Financial Statements, pages 27-35.)

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Notes to Consolidated Financial Statements—December 31, 1977

Summary of Significant Accounting Policies

Principles of Consolidation—The consolidated financial statements include the accounts of the company and all subsidiaries. The voting stock of all consolidated subsidiaries is wholly owned, except for a minority interest in a Canadian subsidiary. The investments in an insignificant real estate subsidiary and in 50% owned companies are recorded on the equity method. All significant intercompany items have been eliminated.

Translation of Foreign Currencies—Assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing on the balance sheet dates, except for inventories, fixed assets, intangibles and deferred income taxes which are generally translated at the rates of exchange prevailing at the time such assets were acquired or liability incurred. Income and expense accounts are translated at the average rates of exchange for each month during the years, except those revenue and expense accounts which relate to assets or liabilities translated at historical rates.

Exchange adjustments originating during the years are reflected in income. Adjustments of balance sheet accounts decreased net income by $8,486,000 in 1977 and increased net income by $471,000 in 1976.

Inventory Valuation—Inventories are stated at the lower of average cost or market and include costs of raw materials, labor and overhead.

Property, Plant and Equipment, at Cost:

	Dec. 31, 1977	Dec. 25, 1976
	(In thousands)	
Land	**$ 27,844**	$ 28,558
Buildings	**366,265**	366,810
Machinery and equipment	**761,554**	728,064
	1,155,663	1,123,432
Less—Accumulated depreciation	**542,671**	517,837
	$ 612,992	$ 605,595

Depreciation—The company and subsidiaries follow the policy of providing, by charges against income, for depreciation of the gross book value of depreciable property. Such charges are generally computed on a straight-line basis over estimated useful lives of buildings and on a composite basis over estimated group lives of machinery and equipment.

Intangibles—The excess of cost over net assets of businesses acquired prior to November 1, 1970 ($23,244,000 at December 31, 1977) is not currently being amortized since the company believes there has been no reduction in the value of these businesses. The excess of cost over net assets of businesses acquired subsequent to November 1, 1970 ($8,246,000 at December 31, 1977, net of amortization) is being amortized over 40 years in accordance with current accounting principles. Amortization was $234,000 in both 1977 and 1976.

Research and Development Costs—Research and development costs are charged to expense as incurred. These costs approximated $16,000,000 for 1977 and $13,000,000 for 1976.

Advertising—Advertising costs are charged to expense as incurred. These costs were $116,716,000 in 1977 and $101,862,000 in 1976.

Repairs and Maintenance—Expenditures for maintenance, repairs, renewals and improvements, which do not materially prolong the normal useful life of the asset, or are of a minor nature, are charged to expense, and expenditures for renewals and improvements of a relatively major nature that substantially prolong the normal useful life of the asset are charged to accumulated depreciation. The amounts charged to expense were $81,285,000 in 1977 and $76,472,000 in 1976.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Undistributed Earnings of International Subsidiaries — Federal income taxes are provided on the portion of each international subsidiary's earnings which is not deemed to be permanently invested in the subsidiary. At December 31, 1977, approximately $95,535,000 of such net undistributed earnings were considered to be permanently invested.

Taxes — Tax expense is made up of the following components:

	1977	1976
	(In thousands)	
Income taxes:		
Current—		
Federal	**$ 98,383**	$ 92,244
Foreign	**23,964**	24,949
State and local (U.S.)	**13,278**	12,694
Deferred	**12,775**	12,499
	148,400	142,386
Other state and local taxes (U.S.)	**14,345**	12,939
Payroll taxes	**27,966**	25,035
Other taxes	**20,657**	20,622
	$211,368	$200,982

Deferred tax expense results from timing differences in the recognition of revenue and expense for tax and financial statement purposes. The amounts applicable to deferred tax expense in the above table result primarily from the excess of tax over book depreciation.

There are no significant items in 1977, either individually or in the aggregate, accounting for the difference between the basic U.S. Federal income tax rate of 48% and the effective rate. The increase in the effective tax rate to approximately 51.2% for 1976 (from 48.0% for 1975) is attributable primarily to the operating losses of the Namur, Belgium, plant which then were not deductible for tax purposes.

Investment tax credits are taken directly into income as a reduction of the provision for Federal income taxes. Investment tax credits were $4,100,000 for 1977 and $6,000,000 for 1976.

It is not expected that there will be substantial cash outlays for tax payments in excess of tax expense for the next three years.

Employees' Stock Options

On April 21, 1977, the stockholders approved a Stock Ownership Plan effective January 1, 1977 (described in the note entitled "Long-Term Growth Plan") which replaced the 1974 Stock Option Plan to the extent that no further grants under the 1974 Plan were made after the effective date of the Stock Ownership Plan and no such grants are to be made in the future. To the extent that options already had been granted and were outstanding under the 1974 Plan as of January 1, 1977, the 1974 Plan is to remain in effect. During 1977, options to purchase 21,564 shares under the 1970 and 1974 Plans were exercised at prices ranging from $28.25 to $38.65 per share, and options for 12,852 shares lapsed or were cancelled. At December 31, 1977, 1,047 employees (including officers) held options under these Plans to purchase 337,591 shares at prices ranging from $28.25 to $45.90 per share. At that date, options for 90,148 shares were exercisable. Proceeds from options exercised during the periods were credited to the common stock, treasury stock and capital surplus accounts. No charges have been reflected in income for any period with respect to the 1970 and 1974 Stock Option Plans.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Long-Term Growth Plan

On April 21, 1977, the stockholders approved the Long-Term Growth Plan consisting of two related parts: the Stock Ownership Plan and the Growth Bonus Plan.

Stock Ownership Plan—This Plan provides that the Management Compensation Committee of the Board of Directors, who may not be employees and who may not participate in the Plan, may award not more than 300,000 shares of restricted common stock of the company to certain key employees selected by the Committee. In June 1977, 61,000 shares of common stock, previously held in the treasury, were awarded, subject to limitations and conditions set forth in the Plan. The Committee designates restricted periods applicable to each award of shares during which the stock may not be sold, assigned, transferred or encumbered. If, during a restricted period, a participant ceases to be an employee for any reason, the shares of restricted stock are forfeited to the company unless the Committee determines otherwise. The market value of the shares, as of the date of the award, is being charged to income over periods of up to four and one-half years during which time such restrictions remain in effect.

Growth Bonus Plan—To participate in the Growth Bonus Plan, an employee also must be a participant in the Stock Ownership Plan. The Growth Bonus Plan is designed to provide, if certain objectives are achieved, funds to cover all or part of the Federal income tax liability resulting from awards of restricted stock under the Stock Ownership Plan or resulting from the lapsing of the restrictions on such stock. The amount of any cash payment is subject to the achievement of certain Growth Goals over a period of time called a Performance Cycle which generally parallels a restricted period under the Stock Ownership Plan. The Committee has determined that, with respect to any Performance Cycle designated during the first five years of the Plan, any Growth Bonus is conditioned upon the cumulative annual earnings per share over a Performance Cycle being equal to the earnings per share produced by a compound growth in earnings per share of at least 9% over the same period, with a 10% rate being necessary to provide an amount equal to the fair market value of the restricted stock at the time the restrictions lapse.

Profit Incentive Plans

Under year-to-year profit incentive compensation plans of the company, key employees, including officers of the company, earned approximately $5,503,000 for 1977 and $5,375,000 for 1976. These plans, covering 732 and 651 employees for 1977 and 1976, respectively, did not include any director of the company who was not an officer.

Employee Stock Ownership Plan

On September 1, 1977, the company's Board of Directors approved the adoption of an Employees Stock Ownership Plan (ESOP) to be effective as of January 1, 1976. The Plan is intended to qualify under the requirements of Section 401(a) of the Internal Revenue Code of 1954, Section 301 of the Tax Reduction Act of 1975 and Section 803 of the Tax Reform Act of 1976. The purpose of the Plan is to enable participating employees to share in the ownership of the company. The Plan includes all U.S. employees who are not covered by a collective bargaining agreement and who have three or more years of service, except for participants in either the company's Management Incentive Compensation Plans or its Long-Term Growth Plan.

Under the Federal tax laws, the company's investment tax credit will be increased from 10% to 11% as a result of contributing the extra 1% to the ESOP. Under present legislation, the additional 1% credit is available for the years 1976 through 1980. For 1976, the company's 1% tax credit amounts to approximately $660,000. This amount was contributed in cash prior to October 15, 1977 to the ESOP trustee, Bankers Trust Company, for investment primarily in the company's common stock for the benefit of the participating employees. For 1977, the 1% additional tax credit will approximate $410,000. It is the intent of the company generally to pay administrative costs of the Plan which are estimated to be about $115,000 for the first full year.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Company Pension Plans

The company and its subsidiaries have several pension plans. It is the company's general policy to provide and fund current service costs and interest on unfunded prior service costs annually, and to amortize past service costs over periods of 20 to 40 years. Vested benefits under these plans, as of December 31, 1977, were fully funded except the company's noncontributory plan and certain plans of the company's subsidiaries where the present value of vested benefits exceeded the market value of the plan assets by approximately $17,100,000. The company also contributes to joint industry and union plans. Substantially all employees are covered under one or more of these plans. Total pension costs approximated $31,800,000 in 1977 and $30,800,000 in 1976.

Borrowing Arrangements

The company had unused lines of credit amounting to $267,000,000 at December 31, 1977. Bank balances of approximately $14,700,000 were maintained at banks to offset routine banking service charges and to support lines of credit. It is the company's policy to maintain bank lines of credit at least equal to its outstanding commercial paper.

Short-term borrowings were as follows:

	Amount	Weighted Avg. Interest Rate
	(In thousands)	
December 31, 1977		
Commercial paper—Canada	**$ 19,701**	**7.0%**
Bank loans—International	**77,666**	**7.9**
Parallel loan financing	**—**	**—**
	$ 97,367	**7.7%**
Average short-term debt (monthly)	**$102,579**	**9.1%**
Maximum period-end short-term debt	**$123,855**	**—**
December 25, 1976		
Commercial paper—U.S.	$ 38,460	4.7%
Bank loans—International	65,434	8.9
Parallel loan financing	—	—
	$103,894	7.4%
Average short-term debt (monthly)	$104,956	8.9%
Maximum period-end short-term debt	$164,466	—

The average monthly borrowings and weighted average interest rates were determined using period-end borrowings and the interest rates applicable thereto.

Commercial paper is sold in the open market in the U.S. and Canada through money market dealers.

Long-term borrowings were as follows:

All of the issues of long-term debentures, other than the 7-1/2% DM Convertible Bonds and the debt of subsidiary companies, have sinking fund requirements. The amounts shown as outstanding at December 31, 1977, exclude maturities, amounts provided for payment and sinking fund requirements included in current liabilities, and $2,814,000 of debentures held in treasury in excess of current sinking fund requirements. At December 31, 1977, an amount of DM 100,000,000 ($47,700,000—$42,300,000 at December 25, 1976) is included in Miscellaneous Investments for the redemption of the DM Convertible Bearer Bonds. The interest rate earned on the funds set aside is 8-1/2% per annum.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

	Dec. 31, 1977	Dec. 25, 1976
	(In thousands)	
4-3/8% Debentures due 1992	**$ 19,877**	$ 21,671
6-7/8% Debentures due 1996	**44,909**	46,926
8-3/8% Debentures due 2004	**100,000**	100,000
7.60% Debentures due 2007	**100,000**	—
14% loan due 1979 (Spanish subsidiary)	**600**	—
8-1/2% loan due 1978 (Spanish subsidiary)	**—**	3,060
8-1/4% Guaranteed Notes due 1982 (Canadian subsidiary)	**22,850**	—
7-1/2% DM Convertible Bonds due 1985 (convertible into 649,350 shares of common stock of Kraft, Inc.)	**47,700**	42,300
2% Mortgage—Pennsylvania Industrial Development Authority due 1978/93	**3,817**	4,042
5.4% Notes due 2002	**2,300**	—
Mortgages payable of subsidiaries due 1978/93	**2,080**	2,758
Parallel loan financing	**—**	—
	$344,133	$220,757

Excluded from long-term debt and assets are borrowing arrangements in foreign currencies for which there are related loans receivable of equivalent amounts. At December 31, 1977, these parallel arrangements consisted of a long-term amount of $25,000,000 maturing in 1990 and short-term amounts of $13,920,000. In the event of default by either party under these arrangements, a legal right of offset allows defaulted principal and accrued interest to be offset against the related repayment obligation. The interest rate on the loan payable is 11-1/4% and the interest rate on the dollar loan receivable is 8-3/4% for the $25,000,000 loan. For the $13,920,000 loans the interest rates range from 7.875% to 9.5% for the loans payable and 6.75% to 7.125% for the loans receivable.

As of December 31, 1977, the net aggregate amounts of annual sinking fund and repayment requirements for, and maturities of, long-term debt after deducting amounts provided for payment, total $3,348,000 for 1978, $3,192,000 for 1979, $3,405,000 for 1980, $4,452,000 for 1981 and $27,230,000 for 1982.

International Subsidiaries

The financial statements of international subsidiaries other than Canadian included in consolidated financial statements, in the aggregate, reflect the following:

	Dec. 31, 1977	Dec. 25, 1976
	(In thousands)	
Notes and accounts receivable	**$ 86,654**	$ 67,906
Inventories	**172,271**	148,172
Property, plant and equipment, less accumulated depreciation	**127,326**	127,315
Other assets	**15,967**	17,848
	402,218	361,241
Less—Liabilities	**207,632**	173,731
Net assets	**$194,586**	$187,510

The net sales, income before taxes, and net income (loss) for the two years ended December 31, 1977 and December 25, 1976 of such subsidiaries were as follows:

	Net Sales	Income Before Taxes*	Net Income (Loss)*
		(In thousands)	
1977	**$848,324**	**$20,290**	**$ 7,860**
1976	$749,855	$12,006	$(1,209)

*For additional details on translation of foreign currencies, see pages 23 and 27.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Income before taxes includes losses of certain international subsidiaries for which no potential future tax benefits have been recorded. Also, see comments in Financial Review, pages 20-23. Income taxes included in the determination of net income (loss) are based upon foreign income tax rates applicable to such income. Any additional taxes expected to be payable in the United States on foreign income are included in the consolidated provision for income taxes.

Contingent Liabilities

There are no pending legal proceedings against the company other than ordinary routine litigation (including several private actions, some seeking treble damages, based on alleged violation of the antitrust laws) which is incidental to the company's business and, based on the opinion of the company's General Counsel, it is believed that the outcome of such litigation will not materially affect the company's consolidated financial position or operations. Also, see the comments in Legal Matters, page 23.

Interim Results (Unaudited)

The following is a summary of the unaudited interim results of operations for two years:

	1977	1976
	(In thousands, except per share)	
	13 Weeks Ended	
	Mar. 26, 1977	Mar. 27, 1976
Net sales	**$1,283,193**	$1,242,125
Cost of products sold	**1,019,689**	1,002,060
Net income	**38,540**	34,300
Net income per common and common equivalent share	**$1.38**	$1.22
	Jun. 25, 1977	Jun. 26, 1976
Net sales	**$1,291,259**	$1,229,791
Cost of products sold	**1,018,367**	980,760
Net income	**41,224**	36,052
Net income per common and common equivalent share	**$1.47**	$1.30
	Sept. 24, 1977	Sept. 25, 1976
Net sales	**$1,304,882**	$1,258,477
Cost of products sold	**1,044,196**	1,001,504
Net income	**39,807**	34,849
Net income per common and common equivalent share	**$1.42**	$1.25
	14 Weeks Ended Dec. 31, 1977	Dec. 25, 1976
Net sales	**$1,359,473**	$1,246,250
Cost of products sold	**1,086,929**	1,006,615
Net income	**34,544**	30,449
Net income per common and common equivalent share	**$1.24**	$1.09

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Capital Transactions

	Number of Shares		Amounts (In thousands)		
	Common Stock	Treasury Stock	Common Stock	Treasury Stock	Capital Surplus
December 27, 1975	29,451,388	1,667,379	$73,628	$70,427	$49,324
Used for—					
Conversion of subsidiary shares	—	(220)	—	(9)	—
Management Incentive Compensation Plan	—	(158)	—	(7)	—
Stock options exercised	—	(15,871)	—	(670)	13
December 25, 1976	29,451,388	1,651,130	$73,628	$69,741	$49,337
Used for—					
Stock Ownership Plan	—	(60,650)	—	(2,562)	251
Management Incentive Compensation Plan	—	(205)	—	(8)	—
Stock options exercised	—	(21,564)	—	(911)	(112)
December 31, 1977	29,451,388	1,568,711	$73,628	$66,260	$49,476

Segments of the Business

The company operates principally in one industry—food and kindred products—which represents approximately 96% of its business.

Segments of Business by Geographical Areas

	Five Year Summary (In thousands)				
	1977	1976	1975	1974	1973
Sales:					
To unaffiliated customers—					
United States	**$3,812,588**	$3,665,530	$3,609,174	$3,358,109	$2,704,362
Canada	**577,895**	561,258	484,636	430,856	327,908
Europe	**645,203**	566,177	592,110	519,571	430,938
All other	**203,121**	183,678	171,458	162,891	138,327
Total	**$5,238,807**	$4,976,643	$4,857,378	$4,471,427	$3,601,535
Intersegment—					
United States	**$ 7,682**	$ 6,780	$ 5,819	$ 7,243	$ 4,117
Canada	**55**	—	34	320	60
Europe	**2,043**	2,382	2,270	3,570	2,190
All other	**—**	1	—	5	25
Total	**$ 9,780**	$ 9,163	$ 8,123	$ 11,138	$ 6,392
Operating profit:					
United States	**$ 280,775**	$ 265,850	$ 244,365	$ 167,396	$ 164,073
Canada	**29,976**	35,058	30,157	25,524	23,506
Europe	**14,813**	10,483	25,809	27,476	30,392
All other	**18,912**	14,408	15,408	10,591	14,245
Total	**$ 344,476**	$ 325,799	$ 315,739	$ 230,987	$ 232,216
Corporate general expense	**(21,180)**	(25,281)	(19,786)	(18,116)	(21,408)
Interest expense, net	**(20,781)**	(22,482)	(27,724)	(36,022)	(12,937)
Income before income taxes	**$ 302,515**	$ 278,036	$ 268,229	$ 176,849	$ 197,871
Identifiable assets:					
United States	**$1,163,574**	$1,175,783	$1,089,805	$1,157,587	$ 949,582
Canada	**178,694**	151,092	147,801	143,183	113,269
Europe	**290,305**	266,425	249,899	245,369	176,159
All other	**111,913**	94,816	98,346	86,076	79,037
Corporate	**340,875**	133,738	100,666	123,020	121,661
Total	**$2,085,361**	$1,821,854	$1,686,517	$1,755,235	$1,439,708

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Segments of Business by Classes of Products

Five Year Summary (In thousands)

Sales:	1977	1976	1975	1974	1973
To unaffiliated customers—					
Processed Foods					
Cheese and related products	**$2,085,289**	$1,961,148	$1,779,510	$1,600,336	$1,401,703
Vegetable oil based and other products	**2,002,332**	1,829,442	1,923,619	1,803,800	1,294,695
Dairy Group					
Fluid milk products	**448,767**	453,920	457,556	436,353	397,664
Ice cream and frozen desserts	**292,362**	289,327	279,885	233,619	188,584
Manufactured dairy products	**175,115**	234,330	228,561	209,432	190,101
Other products	**17,448**	21,361	20,449	19,944	20,122
Nonfood Products	**217,494**	187,115	167,798	167,943	108,666
Total sales to unaffiliated customers	**$5,238,807**	$4,976,643	$4,857,378	$4,471,427	$3,601,535
Intersegment—					
Processed Foods	**$ 7,927**	$ 13,964	$ 13,425	$ 10,881	$ 8,904
Dairy Group	**1,349**	495	472	666	1,353
Nonfood Products	**81,796**	75,672	66,750	56,683	45,044
Total intersegment	**$ 91,072**	$ 90,131	$ 80,647	$ 68,230	$ 55,301
Operating profit:					
Processed Foods	**$ 292,616**	$ 271,126	$ 262,611	$ 184,047	$ 205,130
Dairy Group	**29,548**	31,529	35,654	24,844	18,641
Nonfood Products	**22,312**	23,144	17,474	22,096	8,445
Total operating profit	**$ 344,476**	$ 325,799	$ 315,739	$ 230,987	$ 232,216
Corporate general expense	**(21,180)**	(25,281)	(19,786)	(18,116)	(21,408)
Interest expense, net	**(20,781)**	(22,482)	(27,724)	(36,022)	(12,937)
Income before income taxes	**$ 302,515**	$ 278,036	$ 268,229	$ 176,849	$ 197,871
Identifiable assets:					
Processed Foods	**$1,420,400**	$1,354,187	$1,269,904	$1,321,596	$1,065,937
Dairy Group	**151,634**	163,172	172,682	175,018	172,731
Nonfood Products	**172,452**	170,757	143,265	135,601	79,379
Corporate	**340,875**	133,738	100,666	123,020	121,661
Total identifiable assets	**$2,085,361**	$1,821,854	$1,686,517	$1,755,235	$1,439,708
Depreciation:					
Processed Foods	**$ 38,877**	$ 37,447	$ 33,911	$ 31,636	$ 30,284
Dairy Group	**12,252**	12,317	11,407	11,447	12,366
Nonfood Products	**7,722**	6,829	5,881	5,362	3,292
Corporate	**2,038**	1,228	1,178	705	749
Total depreciation	**$ 60,889**	$ 57,821	$ 52,377	$ 49,150	$ 46,691
Capital expenditures:					
Processed Foods	**$ 54,433**	$ 57,425	$ 86,221	$ 66,355	$ 52,433
Dairy Group	**11,850**	11,894	11,223	9,707	8,622
Nonfood Products	**9,475**	16,427	19,354	13,812	8,370
Corporate	**1,340**	526	563	4,290	949
Total capital expenditures	**$ 77,098**	$ 86,272	$ 117,361	$ 94,164	$ 70,374

In the two segment tables, intersegment sales are accounted for as intercompany sales made in accordance with company pricing policies established on the basis of arms length transactions. Such sales are eliminated against cost of products in the consolidated statements Operating profit is total revenue less operating expenses. In computing operating profit, none of the following items have been added or deducted. general corporate expenses, net interest expense and income taxes.

Identifiable assets are those assets of the company that are identified with the operations in each segment and geographic area. Corporate assets are principally cash, temporary investments and properties.

Sales to a single customer do not exceed 10 percent of total sales. Export sales are nominal.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Replacement Cost Information (Unaudited)

In compliance with Securities and Exchange Commission regulations, beginning with the year 1976, the company has computed replacement cost data for property, plant and equipment, depreciation, cost of products and inventories.

These computations indicate that the estimated cost of replacing the productive capacity of the property, plant and equipment at the end of 1977 and 1976 and the related depreciation on a replacement cost basis would be higher than the historical costs actually incurred. This is due to the cumulative results of inflation over the long useful lives of these assets.

In addition, the replacement cost of products and inventories for both years would be somewhat higher than on the historical cost basis. This difference is due primarily to increased depreciation to reflect replacement cost of productive capacity and fluctuations in prices of the major raw ingredients, cheese and vegetable oil.

The impact of inflationary pressures on the company's operations has been reduced through increased productivity, cost effectiveness programs, improvements in technology and changes in selling prices

Kraft, Inc 's Annual Report to the Securities and Exchange Commission on Form 10-K (a copy of which is available on request) contains more specific information with respect to replacement cost of property, plant and equipment, depreciation, cost of products and inventories.

Auditors' Report

To the Board of Directors and Stockholders of Kraft, Inc.:

We have examined the consolidated balance sheet of Kraft, Inc. (a Delaware corporation) and subsidiaries as of December 31, 1977, and December 25, 1976, and the related consolidated statements of income, retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Kraft, Inc and subsidiaries as of December 31, 1977, and December 25, 1976, and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

Arthur Andersen & Co.

69 West Washington Street
Chicago, Illinois 60602
February 17, 1978

Responsibility for Financial Statements

The above auditors' report expresses their opinion as to the fair presentation of our financial statements and their consistency in being in conformity with generally accepted accounting principles. It is management's responsibility to see that such financial statements accurately reflect the financial position of the company and its operating results. In meeting this responsibility, the company maintains systems of internal controls, policies and procedures to ensure that its accounting, administrative procedures and reporting practices are of the highest quality and integrity. The company also maintains an internal auditing function which constantly evaluates the adequacy and effectiveness of such internal controls, policies and procedures.

The Audit Committee of the Board of Directors (which is composed entirely of "outside directors," i.e., directors who are not officers of the corporation) meets periodically with the independent auditors and with management to satisfy itself that both are properly discharging their responsibilities.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Five Year Summary

Kraft, Inc. and Subsidiaries
(In millions, except per share or as indicated)

See Management's Discussion and Analysis of Operations, pages 20-23.

	1977*	1976	1975	1974	1973
Summary of operations:					
Net sales	**$5,239**	$4,977	$4,857	$4,471	$3,602
Costs and expenses—					
Cost of products	**4,169**	3,991	3,921	3,647	2,827
Delivery, sales and administrative expense	**748**	692	650	614	570
Interest expense	**34**	26	32	39	17
Interest income	**(13)**	(3)	(4)	(3)	(4)
Other (income), net	**(2)**	(7)	(10)	(3)	(6)
Total costs and expenses	**$4,936**	$4,699	$4,589	$4,294	$3,404
Income before taxes	**303**	278	268	177	198
Provision for taxes on income	**149**	142	128	82	95
Net income	**$ 154**	$ 136	$ 140	$ 95	$ 103
Dividends	**$ 65**	$ 59	$ 53	$ 52	$ 49
Per share of common stock:					
Net income	**$ 5.51**	$ 4.86	$ 5.01	$ 3.41	$ 3.70
Net income—fully diluted	**$ 5.44**	$ 4.80	$ 4.95	$ 3.38	$ 3.66
Dividends	**$ 2.32**	$ 2 12	$ 1.92	$1.882	$1.768
Financial position:					
Notes and accounts receivable, net	**$ 342**	$ 311	$ 305	$ 301	$ 261
Inventories	**774**	763	706	793	559
Property, plant and equipment, net	**613**	606	584	524	480
Total assets	**2,085**	1,822	1,687	1,755	1,440
Long-term debt	**344**	221	216	237	143
Stockholders' equity	**1,107**	1,016	938	850	808
Per share of common stock	**$39.69**	$36.54	$33.78	$30.67	$29.14
Statistical information:					
Capital expenditures	**$ 77**	$ 86	$ 117	$ 94	$ 70
Depreciation	**61**	58	52	49	47
Total taxes—income, property, payroll and other	**211**	201	183	131	138
Per share of common stock	**$ 7.58**	$ 7 23	$ 6.57	$ 4.72	$ 4.96
Payroll and employee benefits	**715**	669	618	580	523
Average number of employees	**46,907**	47,703	48,409	50,410	48,909
Number of stockholders at year-end	**61,444**	63,384	65,209	66,230	67,556
Number of shares of common stock outstanding at year-end (thousands)	**27,883**	27,800	27,784	27,718	27,720

*Fifty-three week accounting year

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Board of Directors

William O Beers
Chairman of the Board and
Chief Executive Officer

Catherine B. Cleary
Chairman of the Board
First Wisconsin Trust Company
Trust Service
Milwaukee

John D. deButts
Chairman of the Board and
Chief Executive Officer
American Telephone and
Telegraph Company
New York

E. Mandell de Windt
Chairman of the Board and
Chief Executive Officer
Eaton Corporation
Manufacturing
Cleveland

Lloyd C Elam, M.D
President Meharry Medical College
Nashville

Robert S. Ingersoll
Deputy Chairman of the Board of
Trustees University of Chicago
Chicago

M. Joseph Lambert
Senior Vice President and
Chief Financial Officer

John F. McGillicuddy
President Manufacturers Hanover
Corporation and President
Manufacturers Hanover Trust Company
Commercial Banking
New York

John S. Reed
Chairman of the Board and
Chief Executive Officer Santa Fe
Industries Inc and of The Atchison
Topeka and Santa Fe Railway Company
Chicago

O. Everett Swain
Executive Vice President, and
Chairman Retail Food Group

Walter N. Thayer
Partner Whitcom Investment Company
and President Whitney
Communications Corporation
Investments and Publishing
New York

John L. Weinberg
Senior Partner Goldman Sachs & Co
Investment Banking
New York

Arthur W. Woelfle
President and
Chief Operating Officer

George G Zipf
Chairman of the Board and President
The Babcock & Wilcox Company
Manufacturing
New York

Note In this report trademarks of Kraft, Inc are indicated by the use of italics The symbol ® is also a trademark of the corporation

Printed in U S A

Officers and Committees

(*Member, Management Policy Committee)

William O. Beers*
Chairman of the Board and
Chief Executive Officer

Arthur W. Woelfle*
President and
Chief Operating Officer

Rudolph E Carlson, Jr.
Senior Vice President —
Corporate Strategy and Development

Chester R. Green
Senior Vice President —
Product Development
Marketing and Research

M Joseph Lambert*
Senior Vice President and
Chief Financial Officer

John M. Richman*
Senior Vice President —
Administration and General Counsel

Luke Davis*
Executive Vice President —
Operations Group

Charles R LeMaster*
Executive Vice President
and President Foodservice and
Industrial Group

William E Reidy*
Executive Vice President —
Technical Services

John M Steiner*
Executive Vice President and
President Dairy Group

O. Everett Swain*
Executive Vice President and
Chairman Retail Food Group

John J. Beatty, III
Vice President —
Government Relations

Joseph L Calirl
Vice President and Secretary

Donald W Carlin
Vice President and
Assistant General Counsel

Robert G. Johnson
Vice President and
Assistant General Counsel

William B Jordan
Vice President and Treasurer

John T. Kelly
Vice President and
Assistant General Counsel

Heribert Kohlhaas
Vice President and President
Kraft International Division

Channing H. Lushbough
Vice President —
Quality Assurance

Margaret P. MacKimm
Vice President and
Director of Public Relations

Thomas J McHugh
Vice President — Taxes

Edward W. Smeds
Vice President — Human Resources

John X. Thomas
Vice President —
Community and Civic Affairs

Carmen G. Tumino
Vice President — Engineering

John F White
Vice President and Director of
Research and Development

Herman M Wille
Vice President — Urban Affairs

Roger H. Willis
Vice President and Comptroller

Richard J Foley
Assistant Secretary

Anthony K. Grina
Assistant Treasurer

Robert W Hoaglund
Assistant Comptroller

Kenneth S Kirsner
Assistant Secretary

Howard M Lee
Assistant Treasurer

Arthur R. Messerschmidt
Assistant Treasurer

Mary P. O'Brien
Assistant Secretary

Conrad G. Olson
Assistant Comptroller

Audit Committee

Lloyd C Elam, M D., Chairman
Robert S Ingersoll
Walter N Thayer
George G. Zipf

Executive Committee

William O Beers, Chairman
Catherine B. Cleary
John D. deButts
Lloyd C Elam, M D
Robert S Ingersoll
John F McGillicuddy
John S Reed
Walter N Thayer
Arthur W. Woelfle

Finance Committee

M. Joseph Lambert, Chairman
William O Beers
Catherine B. Cleary
John D. deButts
Lloyd C Elam, M.D.
John F McGillicuddy
John L. Weinberg
Arthur W. Woelfle

Operating Committee

Arthur W. Woelfle, Chairman
William O. Beers
Luke Davis
Chester R. Green
Russell J. Greenwood
Heribert Kohlhaas
S L Kopald, Jr.
Charles R. LeMaster
John E Mast
R Dean Nelson
William E. Reidy
H. Keith Ridgway
Carl D Steen
John M. Steiner
O. Everett Swain

Transfer Agents

Manufacturers Hanover
Trust Company
4 New York Plaza
New York, New York 10015

Harris Trust and Savings Bank
111 West Monroe Street
Chicago, Illinois 60690

Bank of America, N T. & S.A.
55 Hawthorne Street
San Francisco California 94120

The Royal Trust Company
630 Dorchester Boulevard West
Montreal 110, P Q Canada

Royal Trust Tower
Toronto-Dominion Centre
Toronto 116, Ont., Canada

†Commonwealth Trading Bank
of Australia
233 Collins Street
Melbourne, Victoria, Australia

Registrars

The Chase Manhattan Bank,
N.A., New York
Continental Illinois National
Bank and Trust Company
of Chicago, Chicago
Wells Fargo Bank, N A.,
San Francisco
Montreal Trust Company,
Montreal and Toronto
†The Wales Nominees (Vic.)
Pty. Limited, Melbourne

Stock Exchanges

New York (principal market),
Midwest, Pacific, Montreal,
Toronto, †Adelaide, Amsterdam,
†Brisbane, †Hobart, †Melbourne,
†Perth, †Sydney, London,
Brussels, Antwerp, Frankfurt/
Main, Basel, Bern, Geneva,
Lausanne, Zurich.
U.S. Trading Symbol: KRA.

Auditors

Arthur Andersen & Co.

Corporate Headquarters

Kraft, Inc.
Kraft Court
Glenview, Illinois 60025
(312) 998-2000

†*For shares represented by Australian certificates only*

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Kraft, Inc.
Kraft Court
Glenview, IL 60025

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.